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Research Report on America's Cities

THE EFFECTS OF THE 1986 TAX REFORM ACT ON CITY FINANCES

An Appraisal of Year One

One of a series of Research Reports on major empirical studies of conditions and policies in America's municipalities.

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THE EFFECTS OF THE 1986 TAX REFORM ACT ON CITY FINANCES

An Appraisal of Year One

By

Dr. Michael A. Pagano
Miami University

December 1987

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PREFACE

This report provides an initial indication of the effects that the 1986 Tax Reform Act is having on municipalities' finances. Less than a year after TRA was enacted (the survey was done in June 1987), significant proportions of city finance officers reported that reductions in capital and operating budgets were likely as a result of the tax code changes. Coupled with further reductions in federal aid, this is a notable and not at all welcome effect.

To help cities trace the indirect effects of TRA on their local economies, NLC has also published *Your City's 1040*, an analysis and guidebook for city officials. NLC will continue to speak on behalf of the nation's municipal governments regarding their treatment in the federal tax code and will also continue to provide research and services that help city officials understand and cope with the not always salutary results of that treatment.

We want to thank and commend Dr. Michael A. Pagano for his work on this monitoring study. He was NLC's Lincoln Fellow for 1985-1986, and we are pleased to resume an affiliation with him in this report and our planned continuation of it in subsequent years.

Alan Beals
Executive Director

William E. Davis, III
Director,
Office of Policy Analysis and Development

AUTHOR'S ACKNOWLEDGEMENTS

I would like to extend my gratitude to Doug Peterson, Bill Barnes, and Frank Shafroth of the NLC staff for their support of the tax reform monitoring project. I would also like to acknowledge the finance and budget officers who responded to the survey. Without their input this project would not have been feasible. Miami University's Faculty Research Committee provided research funds for this project as did the National League of Cities. Neither is implicated in the errors which this report might contain.

Dr. Michael A. Pagano

EXECUTIVE SUMMARY

THE EFFECTS OF THE 1986 TAX REFORM ACT ON CITY FINANCES

An Appraisal of Year One

Michael A. Pagano
Miami University

National League of Cities
December 1987

City fiscal conditions have been altered significantly in the last two years due to the effects of both a substantial reduction in federal grants to cities and the Tax Reform Act of 1986 (TRA). This is a study of the impacts of TRA. Cities' fiscal policy responses to the TRA in the first year after its implementation are varied. Some cities have yet to respond and others have already adjusted their programs and policies. The majority, however, are in the process of deciding what to do. Although it will take several years before cities fully adjust to all the features of the TRA, three major findings can be drawn from this study on the impacts of tax reform on American cities:

1. Although cities in general have not opted to take draconian measures in dealing with tax reform, 45 percent responded that their **capital budgets** would be reduced. The**operating budgets** of 27 percent of the cities will be reduced.

2. Nearly three-fourths of all cities have altered their **capital and debt policies and procedures** as a result of TRA.

   Most will scrutinize projects more closely in order to be in compliance with the 10 percent rule. Administrative costs and paperwork are expected to increase or already have increased. Nearly one-fourth of all cities expect to reduce their debt volume.

3. **Economic development** programs will generally be affected adversely by tax reform. Industrial development bonds, tax increment financing, stadium and convention center projects, and equity participation will be altered in nearly half to four-fifths of the cities.

Other findings of this study include the following:

4. The impacts of tax reform are not confined to anyone **region** of the country; they are felt everywhere. Cities nationwide are altering their fiscal policies.

5. Shifting more costs to developers is an option that will probably be adopted in more than 40 percent of the cities as a result of TRA.

6. Most finance officers did not believe that the value of property in their cities would be adversely affected by tax reform. The **value of rental properties** in cities, however, is expected to decrease in nearly one-fourth of U.S. cities.

7. Cities that levy a **sales tax**—a local tax that is no longer deductible from federal income tax liabilities—are not contemplating a switch from the sales tax to other taxes, such as the income or property tax, that are still deductible.

I. PURPOSE OF THE STUDY

The purpose of this report is to provide evidence of local government responses to the Tax Reform Act of 1986 (TRA) during Year One (1987). This study identifies and analyzes the actions cities will take, have taken, or are likely to take this year as a result of TRA in their operating and capital budgets, debt policies, cooperative arrangements with other public and private parties, fiscal policies, and economic development programs.

Information on probable city actions was collected from a survey administered to finance officers or budget directors in all cities with populations greater than 50,000. Of the 434 cities with populations greater than 50,000, surveys were returned from 234, a response rate of 54 percent. The four major Census regions of the country were well represented in the survey.

II. INTRODUCTION

The year 1986 marked a watershed for cities. In October of that year Congress, under considerable pressure from the Reagan Administration, passed the most comprehensive revision of the federal tax code in 30 years. Many of the revisions were expected to have an adverse impact on city finances. Passage of the Tax Reform Act of 1986 (TRA) was accomplished precisely at the same time as federal aid to cities was being drastically reduced. The President's proposed budget for fiscal year 1987 called for the termination of General Revenue Sharing, a proposal agreed to in the final congressional appropriation. Likewise, the administration proposed the elimination of the Urban Development Action Grant program in its fiscal year 1987 budget, while Congress approved a 29 percent cut. The Community Development Block Grant program fared somewhat better, with the administration calling for a 16 percent cut and Congress approving no change. In addition, the President's proposed fiscal year 1987 budget requested a phase out of Municipal Wastewater Treatment grants, a 67 percent cut in Assisted Housing, and a 16 percent cut in Job Training Partnership Act funds.

Approval of a reduced federal presence in financing these city programs coincided with final passage of a radical restructuring of the federal tax code. Significant and substantial reductions in federal aid to cities, coupled with a new tax code, certainly painted a rather inauspicious beginning, or at best a problematic fiscal situation, for city finances in 1987.

TRA was expected to alter not only individual and business finances, but state and local public finances as well. For example, reducing the number of deductions and tax expenditures would expand the income tax base, and public coffers would reap the benefits. Lengthening depreciation schedules would make capital construction and equipment purchases less lucrative; it might even dampen the construction industry. Redefining "tax-exempt" bonds might make them less attractive to potential pur-

chasers and might increase the costs to state and local governments. Abolishing the deductibility of sales tax might induce itemizers to demand a shift in the city's or state's tax structure. The list of plausible impacts is substantial.

Each prediction about individual, business, or government response to TRA is premised on assumptions about the effect of elements of the tax code on behavior. If each element of the new tax code is analyzed individually, and if each element could be implemented one at a time, those assumptions may hold. However, when literally thousands of changes in the tax code are implemented simultaneously, the responses become far less predictable. For example, if the new income tax brackets could be implemented alone, we might expect an increase in personal consumption and savings (and investment). But, if we now allow for some savings to be taxed (e.g., Individual Retirement Accounts) for some individuals, savings for some may be neglected in favor of consumption. The combinations and permutations of possible responses to the new tax code are endless.

Further, the TRA was debated and implemented at a time of enormous economic change, rendering many or most predictions about city fiscal policies unreliable. Tax-exempt interest rates declined to an eight-year low, the federal deficit reached an all-time high, and the trade deficit turned the nation from a net exporter to a net importer in short order. Each of these major economic events individually would have quite important impacts on public finances. Taken together, major economic realignments coupled with the thousands of tax code changes cause projections about city fiscal policy changes to be suspect.

The time it takes individuals, businesses, and governments to adapt to the new tax environment varies by (1) **knowledge about** the tax code, (2) **regulations** governing tax code provisions and, for local governments, (3) **state responses** and adjustments to the new tax code. One of the most striking illustrations of the first type of adaptation concerns the tax-exempt debt volume in December 1985. A record volume of debt, almost all of it refinancing, was issued in December because the tax reform bill which the House had just approved (H.R. 3838) placed severe restrictions on debt issued after 1 January 1986. State and local governments' "knowledge about" the possible new tax code forced immediate responses. On the other hand, lack of knowledge about TRA will also influence the types of policies considered by cities. Passage in October 1986 of an extremely complex new tax code will require some time before city officials can digest and understand it fully. As a result, responses to TRA may have to wait months until finance officers and other officials gain adequate knowledge about the TRA to make informed, reasoned fiscal policy changes.

Regulations, on the other hand, are written by the Treasury Department and may take months or longer before they are finalized. As of this writing, most regulations are still being written and reviewed.

Finally, states' fiscal and statutory responses to TRA certainly affect local governments' responses. A state that rebates the income tax revenue "windfall" to the taxpayer – by far the most popular state strategy thus far – will only minimally improve the fiscal situation of cities.

Furthermore, because some elements of the new tax code are to be phased in over several years, local government responses to TRA presumably will be factored in gradually over that period. For example, the reduction in individual income tax rates is scheduled to be completed in two years. If the expected increase in disposable income results in higher consumer spending during those phase-in years, cities (and states) with sales taxes will in all probability receive more sales tax revenues than they would have in the absence of TRA. Responses by local governments to the new tax environment, then, will be shaped by a number of factors and are expected to be made over the next few years.

III. STUDY RESULTS

A questionnaire was sent to all chief finance and budget officers of cities and places with populations greater than 50,000 in June 1987. A reminder and second survey were mailed two weeks later. Usable responses from 234 cities, a 54 percent response rate, comprise the data base from which this study proceeds. Because this is a study of the impact of TRA on city finances in the first year of TRA's implementation, the questions asked finance officers what their cities had actually done or were expected to do during the 1987 year. Consequently, of those cities that are identified as having been affected by TRA, some had already undertaken fiscal shifts as of June 1987, while others are expected to do so within the year.

1) Adjustments to Fiscal and Debt Policies

Respondents in nearly half the cities believed their cities would adjust (or already had adjusted) fiscal policies as a result of TRA. Regional responses to that question varied only slightly (Table 1). For example, cities in the Midwest were less likely to adjust their fiscal policies than other regions – only 37 percent responded that they would – while western cities were more likely to adjust their fiscal policies (58 percent indicating a shift was likely).

Further, there were almost no regional differences in whether or not cities altered their debt or capital policies as a result of tax reform (Table 2). Nationally, three-fourths of the cities indicated that they would alter their debt policy. Regionally, western cities were slightly less likely to have altered their debt policies (67 percent) than cities from other regions, while 80 percent of the northeastern and midwestern cities have altered their debt or capital policies. But these differences were not statistically significant.

TABLE 1
REGIONAL DIFFERENCES IN THE PROBABILITY THAT CITIES WILL ADOPT DIFFERENT FISCAL POLICIES IN RESPONSE TO THE TAX REFORM ACT OF 1986

	Total	Probably Will Adopt New Fiscal Policies	Probably Will Not Adopt New Fiscal Policies
Northeast	28	50%	50%
Midwest	51	37%	63%
South	66	47%	53%
West	65	58%	42%
Total	210	102	108

TABLE 2
REGIONAL DIFFERENCES IN THE PROBABILITY THAT CITIES WILL ADOPT DIFFERENT DEBT OR CAPITAL POLICIES IN RESPONSE TO THE TAX REFORM ACT OF 1986

	Total	Probably Will Adopt New Debt Policy	Probably Will Not Adopt New Debt Policy
Northeast	31	81%	19%
Midwest	61	80%	20%
South	70	74%	26%
West	67	67%	33%
Total	229	172	57

In general, responses to TRA were as likely for cities in the west as for cities in the east, for cities dependent upon the sales tax for revenues as for cities dependent upon the property tax or income tax, for cities that issue industrial development bonds or employ tax increment financing as for cities that are less active in economic development.

2) Budgetary Shifts

The debate over tax reform frequently identified aspects of the proposal that might reduce the fiscal capacity of local governments. For example, lengthening the depreciation schedule and abolishing the investment tax credit for equipment and capital facilities might dampen investment and construction, thus reducing property values and tax revenues. New definitions of "governmental" (or "public purpose") and "private activity" (to be discussed below) might reduce capital spending financed from bonded

debt. If these or any other aspects of tax reform had any impact, it was presumed the impact would be felt in cities' revenues. Several questions in the survey were developed to estimate the extensiveness of such impacts.

The most drastic fiscal policy response to TRA would be the elimination of certain city programs. However, only 11.5 percent of the responding cities felt there was any probability that their city would take such extreme measures. Indeed, nearly all of those respondents indicated that program elimination was "probable," but not "highly probable." Furthermore, while nearly three in four respondents (73.5 percent) thought their cities' operating expenses would not be reduced, only 56 percent believed their capital expenses would be unaffected.

Thus, a significant minority of finance officers believes that city fiscal adjustments to tax reform will be more manifest in their capital budgets than in their operating budgets (Table 3). Although cities in general have not opted to take draconian measures in dealing with TRA by eliminating city programs, 44.4 percent responded that their capital budgets probably will be reduced. The operating budgets of 26.5 percent of the cities will be reduced.

There is a statistically significant correlation between those cities that will probably reduce their capital expenses and those that will probably reduce their operating expenses. In other words, if finance officers believed their city probably would make no budgetary adjustments to the operating side, they tended to say their cities would make no adjustments to the capital side. And, finance officers who believed their cities' operating budget would be affected by tax reform tended to believe their cities' capital budget would likewise be affected.

TABLE 3
BUDGETARY RESPONSE TO THE TAX REFORM ACT OF 1986

	Reduce Operating Expenses	Reduce Capital Expenses
Highly Probable	5.5%	9.4%
Probable	21.0%	35.0%
Not Probable	45.0%	35.5%
Highly Improbable	28.5%	20.2%
Total	100.0%	100.0%
N =	200	203

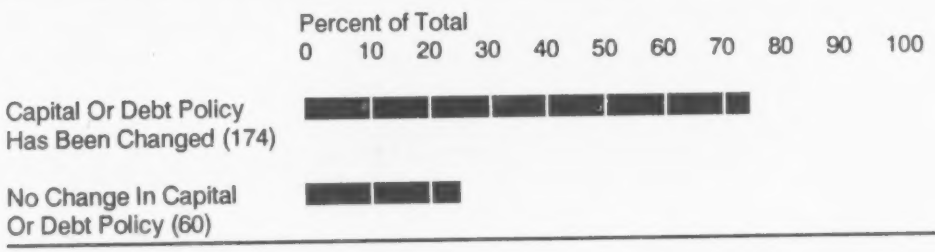
3) Capital/Debt Policy

From the perspective of state and local governments, the most hotly debated revision in the tax code was realized in the area of municipal bonds. The TRA redefined tax-exempt issues (see the Appendix for a brief overview of the new definitions) and declared many heretofore tax-exempt issues as taxable. Also, some arbitrage earnings now are to be rebated to the federal treasury. And local governments must comply with new reporting requirements.

The definitional changes, restrictions on arbitrage earnings, new reporting requirements, the alternative minimum tax, and other aspects of the new tax code were expected to have a detrimental affect on cities' capital and debt policies. Experience in the first seven months of 1987 reflects some of that concern. Controlling for the volume of refunding earlier in the year due to lower interest rates, only approximately $30 billion in new tax-exempt debt was issued between January and July 1987 – historically, a very low volume.

Three-fourths of the cities responding to the survey have altered their capital or debt policies as a result of TRA (Table 4). New definitions of "governmental" and "private activity" account for much of the shift.

TABLE 4
BAR GRAPH OF CHANGES IN DEBT/CAPITAL BUDGET POLICY


Percent of Total
0 10 20 30 40 50 60 70 80 90 100
Capital Or Debt Policy Has Been Changed (174)
No Change In Capital Or Debt Policy (60)

Approximately one-fourth of the finance officers indicated that the new definitions had caused, or probably will cause, the volume of city-issued debt to decline this year. Consequently, some cities (again approximately one-fourth of the cities sampled) have already begun to finance, or expect to finance this fiscal year, more of their infrastructure or capital outlays with current revenues or cash – a financing policy that is untouched by TRA's new definitions.

Cities are now spending much more time ensuring project compliance with the new 10 percent definitions (Tables 5 and 6).

TABLE 5
CHANGES IN CITY DEBT AND CAPITAL POLICIES

	Number	Percent
Projects Are Scrutinized More Closely Due To The 10 percent Rule	116	49.6
Reduction In Volume Of Debt Because Of New Definitions Of Private-activity Bonds	58	24.7
Increase In Current Revenue Or Cash Contribution To Capital Projects	57	24.4
Taxable Bonds Issued	41	17.5
Anticipated Tax Reform by Issuing More Bonds	30	12.8
Developers Providing More Infrastructure	28	12.0
Reduced G.O. Bond Issues	23	9.8
Reduced Revenue Bond Issues	19	8.1

The most frequently identified change in debt and capital policy is in the area of project selection. Nearly one-half of all cities responding to the survey said that compliance with the new tax-exempt bond definitions required closer project scrutiny.

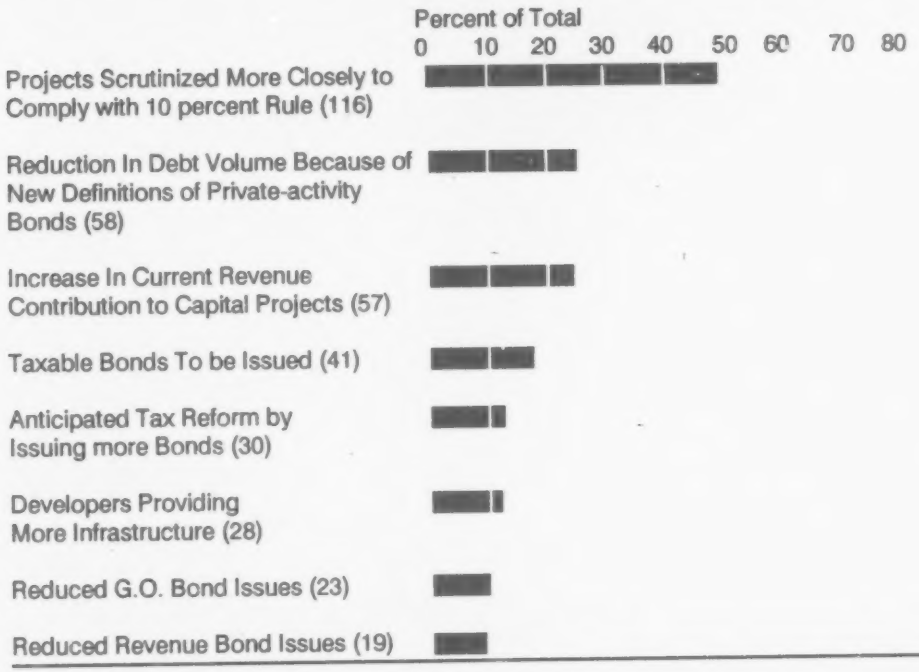
Slightly less than one in ten cities have actually reduced their volume of general oblication issues or their volume of revenue issues. In addition, nearly one in five cities has already issued or expects to issue taxable bonds this fiscal year because of TRA. Presumably, interest costs to those cities will be higher than if tax-exempt debt were issued. Finally, 13 percent have not yet had to alter their debt policy at all because they issued more debt than they would have under normal circumstances in anticipation of TRA. It is reasonable to expect that these latter cities will change their debt policy within the next year or two.

As a result of tax reform, 12 percent of the cities in the survey are requiring developers to provide more infrastructure than previously. And 42 percent of all cities responded that impact or development fees would be imposed or increased because of TRA, presumably to underwrite the costs of infrastructure (see next section).

4) Cooperative Arrangements (Cost-shifting and -sharing)

One possible fiscal response to TRA is to shift or share the costs of services and infrastructure with the private sector (developers) and with other state and local governments. By spreading the costs, service delivery and project construction might continue uninterrupted.

TABLE 6
BAR GRAPH OF CHANGES IN CITY DEBT AND CAPITAL POLICY


Percent of Total
0 10 20 30 40 50 60 70 80
Projects Scrutinized More Closely to Comply with 10 percent Rule (116)
Reduction In Debt Volume Because of New Definitions of Private-activity Bonds (58)
Increase In Current Revenue Contribution to Capital Projects (57)
Taxable Bonds To be Issued (41)
Anticipated Tax Reform by Issuing more Bonds (30)
Developers Providing More Infrastructure (28)
Reduced G.O. Bond Issues (23)
Reduced Revenue Bond Issues (19)

More than 42 percent of the responding cities indicated that impact or development fees would, or probably would, be adopted or increased as a result of TRA (Table 7). In addition to increasing development or impact fees, 12 percent of the cities responded that developers would be required to build more infrastructure as a result of tax reform (see Tables 5 and 6 above).

Another option for cities to consider is to establish cooperative arrangements with other local or state governments. Nevertheless, very few cities in the survey – less than five percent – have opted, or are likely to opt, for such cooperative arrangements.

5) Rental Properties

Fear that TRA would reduce incentives for investors in rental property has been widespread. Census Bureau data shows that as of July 1987, multi-family housing starts (with five units or more) totaled 239,900, down nearly 30 percent for the first seven months of 1987 compared with the first seven months of 1985. The downturn, according to *Investor's Daily*, was attributed primarily to two factors: previous overbuilding

Feburary 8, 1988

THE EFFECTS OF THE 1986 TAX REFORM ACT

CORRECTION TO TABLE 8 ON PAGE 11. IN THE TEXT, THE COLUMN HEADINGS ARE PRINTED INCORRECTLY. THE TABLE SHOULD READ AS FOLLOWS:

TABLE 8
CHANGES IN PROPERTY CLASS VALUES AS A RESULT OF THE TAX REFORM ACT OF 1986

	Industrial	Commercial	Owner Occupied Housing	Rental	Public Utilities
Higher Value	5.2%	6.8%	14.1%	6.7%	5.3%
No Change	82.8%	77.1%	82.2%	70.6%	87.8%
Lower Value	12.0%	16.1%	3.7%	22.7%	6.9%
N =	192	192	191	194	189

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and TRA. If TRA is responsible for less investment in rental property, not only will fewer rental units be constructed but also the value of rental property might decline and, consequently, property tax revenues from rental properties might also drop.

TABLE 7
IMPOSITION OF, OR INCREASE IN, DEVELOPMENT OR IMPACT FEES

	Number	Percent
Highly Probable	16	7.6
Probable	73	34.8
Not Probable	74	35.2
Highly Improbable	47	22.4
Total	210	100.0

Finance officers indicated that in general property values of all classes would probably be unaffected by TRA. However, the value of rental properties appears to be susceptible to decline. Almost one in four cities probably will experience a decline in rental property values, while the values of other property classes probably will be not as adversely affected (Table 8). Although the value of most properties probably will not be higher as a result of tax reform, a significant minority (14.1 percent) believed that the new tax code would increase personal disposable income and result in higher values for owner-occupied property.

TABLE 8
CHANGES IN PROPERTY CLASS VALUES AS A RESULT OF THE TAX REFORM ACT OF 1986

	Owner-Occupied	Rental	Public Utilities	Industrial	Commercial
Higher Value	5.2%	6.8%	14.1%	6.7%	5.3%
No Change	82.8%	77.1%	82.2%	70.6%	87.8%
Lower Value	12.0%	16.1%	3.7%	22.7%	6.9%
N =	192	192	191	194	189

6) Economic Development

Cities have adopted a variety of economic development strategies that are affected by the new tax code. Industrial development bonds, for example, will in most cases be classified as "private activity" issues and be rationed at the state level. Construction or promotion of convention centers and sports stadiums, a primary development strategy adopted by many cities in the past decade, can only be financed with tax-exempt debt

under unusual circumstances. The 1986 tax changes mean cities' development efforts will probably be altered, or projects will be refined in order to comply with the tax code's stringent standards and new definitions.

Four broad economic development strategies were listed in the survey. Issuance or city sponsorship of IDBs is by far the most heavily relied upon economic development policy and is employed or has been contemplated in 174 (or 78 percent) of the 222 responding cities. Tax increment financing is used by 128 (59 percent) of 217 responding cities; convention centers and stadiums by 101 (49 percent) of 204 responding cities; and equity participation by 87 (or 43 percent) of 201 cities (Table 9). Seventeen cities identified other prominent city economic development strategies.

TABLE 9
CITIES' USE OF THE FOLLOWING ECONOMIC DEVELOPMENT TOOLS

	IDBs		TIFs		Equity Partic.		Stad/Conv. Ctr.	
	Number	Percent	Number	Percent	Number	Percent	Number	Percent
No	48	21.6	89	41.0	114	56.7	103	50.5
Yes	174	78.4	128	59.0	87	43.3	101	49.5

According to city finance officers, the most severe effects of TRA will be, or has been, felt in issuing IDBs for development purposes. Of the 174 cities that have adopted such a policy, 82 percent believe the new tax code will have, or has had, an adverse impact; 15 percent did not believe it would have any impact and three percent thought it would be used more. The other three development strategies would also be affected, but not as severely as IDBs. Nearly 53 percent of the cities which have employed TIFs or similar policies felt TRA would adversely affect the use of that development tool; 47 percent of cities that have employed, or contemplated, the policy of constructing convention centers or stadia thought TRA would affect that development policy; and 43 percent felt equity participation would be negatively affected (Table 10).

TABLE 10
EFFECTS OF TAX REFORM ON CITIES' ECONOMIC DEVELOPMENT TOOLS

	IDBs	TIFs	Equity Partic.	Stadium/Conv. Ctr.
Adverse effect	82.2%	53.1%	42.5%	46.5%
No effect	14.9%	39.1%	47.1%	50.5%
Will be used more	2.9%	7.8%	10.3%	3.0%
N=	174	128	87	101

7) Revenue Sources and Policy Responses

Budgetary Surplus. The effects of TRA on city finances will be felt in stages over a period of several years. Unwritten regulations, the gradual impact of lower income tax brackets, lack of a clear understanding of all the ramifications of tax reform, will all be addressed to one degree or another over the course of the next several years. Cities with budgetary surpluses, it can be argued, are better positioned financially to cushion the impact of tax reform than others.

However, according to the survey data from this tax reform project and from NLC's fiscal survey as reported in *City Fiscal Conditions*, of which there were 113 overlap cities, cities with fiscal year 1987 budgetary surpluses – defined as current year revenues minus current year expenditures – were just as likely to have done nothing differently because of TRA as were cities without budgetary surpluses. Further, cities with budgetary surpluses were just as likely to reduce operating and capital expenses, alter debt policy, change their economic development programs, and further engage the private sector in providing infrastructure programs as were cities without budgetary surpluses. In short, at least during Year One of TRA, budgetary surplus cities do not appear to be adopting fiscal policies that differ from cities without such surpluses.

Sales Tax. The new tax code no longer permits individuals to deduct sales tax from their federal taxable income. According to arguments made to retain sales tax deductibility – and all other state and local taxes – the price of government services would rise, possibly forcing cities and states to reduce their reliance on the sales tax as a revenue source. The data from the survey, however, indicates that cities that have implemented a sales tax were just as likely to reduce operating and capital expenses, alter much of their debt policy, change their economic development programs, and further engage the private sector in providing infrastructure programs, as were cities without sales taxes.

There was one statistically significant finding. Sales tax cities were less likely to reduce their general obligation and revenue debt compared with non-sales tax cities. In other words, cities that have reduced, or plan to reduce, general obligation or revenue debt, tended not to have the authority to levy a sales tax.

Income Tax. The TRA lowered tax rates, reduced the number of tax brackets, and eliminated many tax expenditures. As a result, the federal government is expected to generate more income tax revenues in the long term compared with the old tax code. Because the effect of TRA was to broaden the taxable base, many states were expected to reap a windfall; but local governments that levied an income tax would probably be unaffected, because local income taxes are generally flat taxes on salaries and wages with no deductions.

The data from the survey indicates cities having the authority to levy an income tax were just as likely to reduce operating and capital expenses, alter their debt policy, and change their economic development programs as were cities without a sales tax. When comparing "high" income tax cities with "low" income tax cities – defined as higher-than-average income tax revenues as a percent of General Fund revenues for fiscal year 1987 – the same results obtained.

Cities with the authority to levy an income tax were significantly less likely to require developers to provide more infrastructure as a result of TRA than cities without an income tax. Only one of the 43 cities with income tax authority responded that their infrastructure policy would now require developers to build more infrastructure than before TRA.

Property Tax. Although some cities are more dependent upon the property tax than others, most all cities levy a property tax to fund their operating and capital budgets. TRA may affect property tax dependent cities more than others if property values stagnate or decline. For example, commercial property may become less valuable because of the lengthened depreciation schedule for buildings and other capital equipment. Rental property likewise may become less valuable to investors because of the passive income restrictions.

The survey indicates that those cities whose fiscal year 1987 property tax revenues as a percent of the city's General Fund revenues were higher than the median for all cities were more likely to respond that fiscal policies would probably be altered than cities with lower property tax revenues. In particular, of those 11 cities that reduced their general obligation debt because of tax reform, 10 of them had "higher" than average property tax revenues.

IV. CONCLUSIONS

By itself, the impact of federal aid reductions on city finances would have been quite formidable for cities to surmount. Coupled with radical changes to the federal tax code, cities will be working even harder to finance their responsibilities. This study focuses on the impacts of TRA on city finances. How cities respond and adapt to the new environment will be revealed gradually over the next few years as the full effects of TRA are phased in, individual and business responses become more apparent, and regulations are issued by the Treasury Department. In the first year of TRA, the important impacts on city fiscal policies uncovered in this survey are that (1) capital and debt policies will be altered as a direct result of TRA, (2) capital outlays will be most affected, and probably reduced, due to TRA, and (3) economic development programs will be modified. Probably the most important finding is that there appears to be a great deal of uncertainty on the part of the finance officers in their assessments of how TRA will affect their cities finances. Even though a majority of the respondents could cite probable or actual impacts of TRA, few cities actually have made adjustments in their budgeting and finance procedures to reflect those expectations. For example, only 20 percent (or 46 of 230 responding cities) have altered their revenue-projection models to reflect this new fiscal environment. As the effects of TRA become increasingly felt in cities' coffers, not only is it reasonable to expect that the revenue models will be changed, but that, more importantly, cities will have to alter their programs and fiscal policies.

APPENDICES

Tax Reform Act's Definitions of Governmental and Private-Activity Bonds

The Tax Reform Act redefined "governmental" (or "public purpose") bonds and created two categories of "private-activity" bonds. "Governmental" bonds are issued exclusively for traditional governmental purposes. Two tests are applied to determine whether or not the bonds can be considered "governmental," issued as tax-exempt, and unrelated to the state volume cap. These tests are (1) the trade or business test, and (2) the security interest test.

If more than 10 percent of bond proceeds are used by persons other than the general public or the local government, the issue would satisfy the "trade or business test" (renamed the "private business case test") and cannot be tax-exempt. The old test established a 25 percent threshold. Further, if $15 million of an issue benefits a firm or individual, even though it meets the 10 percent rule, the amount over $15 million must be placed under the state volume cap (to be discussed below) or it must be considered taxable. For "output" facilities (e.g., gas and power, but not water), the threshold for being treated as a private activity is the lesser of 10 percent or $15 million.

The security test states that if more than 10 percent of the bond proceeds are repaid by a firm, individual or other non-governmental unit, the issue must be treated as a private activity. Furthermore, the tax reform law no longer allows tax-exempt status to bonds whose proceeds are loaned to a private person and which amount to 5 percent or $5 million of the total bond proceeds.

The first category of "private-activity" bonds are those that are no longer tax-exempt and consist of bonds issued for the following purposes: sports, convention, or trade show facilities; parking facilities (unless functionally related and subordinate to exempt facilities, such as public airport parking); industrial pollution control facilities; and industrial parks. Tax-exempt industrial development bonds can no longer be issued for these purposes (unless they are issued as general obligation debt, subject to the trade or business test and the security test).

The second, and more complex, category of "private-activity" issues set forth in the tax code allows some bond funds to be used for private-activity purposes as long as the volume of funding is limited. To establish such a limit, the law defines a cap on private-activity bond issues that can be tax exempt. Each state's cap for 1986 and 1987 is either a flat amount of $250 million a year or $75 per capita, whichever is greater. For 1988 and following years, the cap would drop to $150 million or $50 per capita to reflect the termination of single-family mortgage bonds.

A private-activity bond issue in this category is defined as an issue in which 10 percent or $15 million of the proceeds are used to pay for a project that benefits only a particular individual or firm, or an issue in which 5 percent or $5 million of the proceeds are used to make loans to a single individual or firm (such as a developer).

Any issue that violates the new definition of "governmental" is considered a private-activity bond and, if it exceeds the state volume cap, must be floated as a taxable bond issue. The difference between rates for tax-exempt and taxable bonds has been significant. Since 1978, tax-exempt bonds have been sold at interest rates equal to 60 to 80 percent of the interest rates on taxable bonds. An advisory panel to the Treasury Department's study on intergovernmental relations reports that total interest and principal payments could increase by as much as 33 percent if tax-exempt bonds were sold in the taxable bond market.

Private-activity bond issues in this category would count toward a state's cap in one of two ways. First, if any single person or firm receives benefits totaling more than 10 percent or $15 million of the facility funded by the bond issue, the amount of the issue over 10 percent must be counted toward the cap. Second, also counted toward the cap is the entire amount of a bond issue used to fund the following purposes: multi-family rental housing, small-issue industrial development bonds (non-manufacturing IDBs, sunset December 31, 1986; manufacturing IDBs, sunset December 31, 1989), student loans, mortgage revenue bonds (to sunset on December 31, 1988), facilities for non-profit organizations that are tax exempt under Section 501(c)(3) of the federal tax code, qualified redevelopment bonds (or tax increment bonds), governmentally-owned mass commuting facilities, facilities for furnishing water, sewer and solid waste disposal facilities (whether privately or governmentally-owned), local electric and gas facilities, and local district heating and cooling facilities.

Most airports (except for storage facilities, lodging, concessions, etc.), docks and wharves (excluding most storage facilities), governmentally-owned solid waste disposal facilities, and the Section 501(c)(3) non-profits are considered private activity but not subject to the volume cap. These activities are allowed to issue tax-exempt bonds. However, those issues are subject to the alternative minimum tax provision.

Cities Responding to Survey

Alabama
Mobile
Montgomery
Tuscaloosa

Alaska
Anchorage

Arizona
Glendale
Scottsdale
Tucson

Arkansas
Fort Smith
Little Rock
Pine Bluff

California
Alameda
Alhambra
Anaheim
Bakersfield
Berkely
Burbank
Chula Vista
Costa Mesa
Daly City
Downey
Escondido
Fullerton
Hawthorne
Hayward
Huntington Beach
Inglewood
Irvine
Monterey Park
Mountain View
Newport Beach
Oceanside
Ontario
Orange
Redwood City
Richmond
Riverside
Sacramento
Salinas
San Buenaventura
San Diego
San Leandro
Santa Ana
Santa Barbara
Santa Clara
Santa Monica
Simi Valley
Stockton
Sunnyvale
Vallejo
West Covina
Westminster

Colorado
Arvada
Aurora
Boulder
Colorado Springs
Fort Collins
Greeley
Westminster

Connecticut
Bristol
East Hartford
Fairfield
New Britain
Norwalk
Stamford
West Hartford

Delaware
Wilmington

District of Columbia

Florida
Clearwater
Daytona Beach
Largo
Miami Beach
Pensacola
Pompano Beach
Tallahassee

Georgia
Albany
Atlanta
Savannah

Hawaii
Honolulu

Idaho
Boise City

Illinois
Champaign
Chicago
Decatur
Elgin
Evanston
Joliet
Mount Prospect
Oak Park
Skokie
Springfield

Indiana
Muncie

Iowa
Davenport
Des Moines
Dubuque
Iowa City
Sioux City

Kansas
Kansas City
Overland Park

Kentucky
Lexington
Louisville
Owensboro

Louisiana
Baton Rouge
Kenner
Lafayette
Lake Charles
Shreveport

Maryland
Baltimore

Massachusetts
Brockton
Cambridge
Lowell
Quincy

Michigan
Ann Arbor
Battle Creek
Dearborn
Dearborn Heights
Detroit
Farmington Hills
Flint
Kalamazoo

Lansing
Livonia
Pontiac
Roseville
Saginaw
Saint Clair Shores
Sterling Heights
Taylor
Wyoming

Minnesota
Bloomington
Minneapolis
Rochester
St. Paul

Mississippi
Jackson

Missouri
Columbia
Florissant
Independence
Kansas City
St. Joseph
Springfield

Montana
Billings

Nebraska
Omaha

Nevada
Reno

New Jersey
Paterson
Woodbridge

New Mexico
Albuquerque

New York
Albany
Binghamton
Buffalo
Mount Vernon
New Rochelle
New York City
Rochester
Syracuse
Troy

North Carolina
Charlotte
Durham
Greensboro
High Point
Raleigh
Winston-Salem

North Dakota
Fargo

Ohio
Akron
Cincinnati
Cleveland
Cleveland Heights
Columbus
Dayton
Euclid
Hamilton
Lakewood
Lorain
Parma
Springfield

Oklahoma
Enid
Lawton

Oregon
Portland

Pennsylvania
Abington
Allentown
Ardmore
Erie
Levittown
Pittsburgh
Philadelphia

Rhode Island
Cranston
Warwick

South Carolina
Greenville

Tennessee
Clarksville
Memphis

Texas
Amarillo
Arlington
Beaumont
Corpus Christi
Dallas
Fort Worth
Galveston
Garland
Grand Prairie
Houston
Irving
Laredo
Lubbock
McAllen
Mesquite
Midland
Odessa
Plano
Port Arthur
Richardson
San Angelo
Tyler
Waco
Wichita Falls

Utah
Ogden
Salt Lake City
Sandy City

Virginia
Alexandria
Arlington
Chesapeake
Fairfax
Hampton
Lynchburg
Newport News
Norfolk
Portsmouth
Richmond

Washington
Bellevue
Everett
Issaquah
Spokane

West Virginia
Charleston

Wisconsin
Appleton
Eau Claire
Green Bay
West Allis

About The National League of Cities

The National League of Cities was established in 1924 by and for reform-minded state municipal leagues. It now represents 49 leagues and more than 1,300 cities directly and, through the membership of the state municipal leagues, more than 16,000 cities indirectly.

NLC serves as an advocate for its members in Washington in the legislative, administrative, and judicial processes that affect them; develops and pursues a national urban policy that meets the present and future needs of our nation's cities and the people who live in them; offers training, technical assistance and information to municipal officials to help them improve the quality of local government in our urban nation; and undertakes research and analysis on topics and issues of importance to the nation's cities.

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CITY FISCAL CONDITIONS IN 1988

One of a series of Research Reports on major empirical studies of conditions and policies in America's municipalities.

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CITY FISCAL CONDITIONS IN 1988

By

Douglas D. Peterson
Senior Policy Analyst
National League of Cities

July 1988

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PREFACE

This sixth annual National League of Cities City Fiscal Conditions Report presents the results of a survey sent to American cities in May 1988. It is one of a series of reports published by NLC in a continuing effort to provide current information on matters of importance to the officials of America's cities and towns.

The report this year focuses particularly on the budget adjustment actions taken by cities during the past year.

The report was prepared by NLC's Office of Policy Analysis and Development. Douglas Peterson, Senior Policy Analyst, was responsible for developing the survey instrument, analyzing the results, and preparing this report.

It is our hope that conducting this survey and publishing this report will contribute to a continuing discussion of and better understanding of the financial conditions of America's cities and towns. It is our further hope that this will in turn lead to more informed policy-making aimed at the improvement of these conditions.

Alan Beals
Executive Director
National League of Cities

William E. Davis III
Director, Office of Policy
Analysis and Development

ACKNOWLEDGEMENTS

First, and most importantly, I would like to express my appreciation to the individual city finance and budget officials who made time in their busy schedules to complete the questionnaire on which this report is based. Without their prompt and conscientious participation, the report would not be possible. I hope that these individuals find that the quality and usefulness of this report matches the quality of their efforts.

Second, to William Davis, director of NLC's Office of Policy Analysis and Development and William Barnes, NLC's Research Director for their continuing guidance and encouragement.

Third, special thanks to Deborah E. Johnson and Althea Ray for their continuing and good humored assistance in preparing the survey instrument, assisting with data entry, and helping the whole process stay on course. Thanks also to Jim Powell, Graduate Student Intern, for his assistance in data checking and response follow up. Additionally to Jeff Fletcher, Marketing Director for his help with production logistics and Randy Arndt, Media Director for his suggestions as the survey was developed.

Douglas D. Peterson
Senior Policy Analyst
Office of Policy Analysis and Development

EXECUTIVE SUMMARY

CITY FISCAL CONDITIONS IN 1988

by

Douglas D. Peterson

National League of Cities
July 1988

America's city officials continue to respond with a variety of budgetary actions to balance fiscal resources against service needs. In the face of falling federal revenues to cities and state-imposed limitations on city revenue raising and expenditure powers, city officials continue to make tough decisions.

Fifty-five percent of the officials responding to the survey on which this report is based indicated that the growth rate of operating spending in their community had been cut in the last year. Forty-four percent said that capital spending had been cut in their community during the same time period. A majority of the officials reporting both of these actions said that the loss of General Revenue Sharing was an influential factor in the decisions producing these results.

Thirty-five percent of the cities indicated that city services had been contracted out during the past year and one quarter indicated that the number of city employees had been reduced.

In dealing with the revenue side of the budget, 67 percent of the responding cities indicated that the level of fees and charges had been increased. Thirty-seven percent said that their city had implemented new fees or charges during the past year. Impact or development fees are being increasingly being employed to cope with the public costs

imposed by real estate development and 24 percent of the responding cities indicated that such fees had either been imposed or raised in their community during the last year.

Cities in the western region of the country were most active in making changes in their fee and charge policies. Seventy-three percent of the responding cities from this region indicated that fees and charges had been increased in the last year. Forty-three percent of the western cities indicated that new fees had been imposed and 39 percent said development fees had been imposed or raised during the last year.

Forty-one percent of the responding cities indicated that city property tax rates had been increased in the last year. Again a majority of the cities taking this action indicated that the loss of General Revenue Sharing was influential in the decision to raise the property tax rate. In contrast to their leading frequency of fee adjustment actions cities in the West were least likely to have increased property tax rates. Both results can probably be attributed in part to Proposition 13 in California, and other state regulations elsewhere within the region, that make property tax rate increases in this region difficult. This in turn produces pressure on other forms of municipal revenue such as fees.

Much smaller percentages of cities indicated that increases had been made in either sales or income tax rates compared to property tax rate increases. Eight percent of the cities indicated that sales tax rates had been increased and only one percent indicated that income tax rates had been increased. This much lower frequency of adjustment of the rates of these two taxes reflects both the fact that fewer cities are authorized by state law to use these tax sources and when they are authorized to use them the power of an individual city to adjust rates is severely limited or non-existent.

This year, as in past years, the survey looks at rates of change in the revenues and expenditures within city general fund budgets. The survey also examines the relationship between current year revenues and expenditures.

Twenty-five percent of the responding cities experienced an actual decline in their general fund revenues while 70 percent experienced an increase; the remaining 5 percent said their general fund revenues were holding steady. These results are essentially the same as the pattern one year earlier.

Eighty percent of the cities experienced expenditure increases in their general fund and 18 percent experienced decreases.

When revenues were compared with expenditures, 50 percent of the cities indicated that expenditures would exceed revenues in the 1988 fiscal year. Thus a majority of the cities will be using funds from the balances with which they began the year in order to finance expenditures. Since these numbers for 1988 are based on estimates, made in the month of May (most city fiscal years end in June), the actual results will probably

show somewhat different results. Based on past surveys the results should be somewhat better than these projections.

While most cities began the 1988 fiscal year with balances exceeding five percent of expenditures a majority of the cities are projecting that these balances will be reduced during the year. Some reductions in balances simply result from the normal process of evening out uneven revenue and expenditure flows from year to year but for other cities these fund depletions will result in real reductions in the city's capacity to deal with economic uncertainty.

The report concludes with an examination of changes in the levels of city employees. According to U.S. Census Bureau statistics for 1986, the latest year available, total city employment is still below the level achieved in 1975. From 1986 to 1987 24 percent of the cities report a personnel decrease and from 1987 to 1988 24 percent of the cities also indicate personnel reductions. On the other hand, 55 percent of the cities indicate personnel increases from 1986 to 1987 and 57 percent indicate increases from 1987 to 1988.

While each city's financial condition must be evaluated individually, in light of community conditions, it is hoped that this report provides a useful national baseline for comparison.

I. INTRODUCTION

This study reports on the sixth annual survey of city fiscal conditions of America's cities conducted by the National League of Cities.

The League conducts this survey as part of its continuing research and information program for America's municipalities.

While a complete analysis of an individual city's fiscal health involves an examination of a host of factors beyond the scope of this survey, it is hoped that this report, based on responses by a cross-section of American cities, can establish a baseline for further individual analyses.

The responses of the 350 cities, who completed the survey documents, have enabled preparation of a report with representation from across the country.

This report does not attempt to aggregate the municipal financial experience but rather to demonstrate its variations. If the financial transactions of all cities in this report were simply to be added up, the result would be a homogenization in which the variety of the municipalfiscal landscape would be lost.

The report provides information on a variety of city financial indicators including:

- the trend in general fund revenues, expenditures, and balances
- the trend in municipal hiring
- budget adjustments made by cities in the last year and the factors influencing those adjustments

All of the indicators presented here are considered important, but all are of a narrow accounting nature. They look only at taxes levied, money spent, and financial balances.

A more complete picture of city fiscal conditions requires indicators of comparable strength that measure service deficits and surplusesøthat is, indexes of the services which citizens receive and deserve. This report does not provide these equally important measures, but it is hoped that some useful trend data is provided which can assist in individual community assessments and contribute to national and state policy discussions about municipal policies that invest in the future of America's cities and towns.

Why are cities important?

There are over 19,000 government units in the United States classified by the U.S. Census as municipalities. Their formal title may be city or town or village but they share an important common functionøthe delivery of services to their citizens.

It is a diverse group ranging from New York City, whose population is larger than that of all but nine states, whose municipal work force is larger than the total population of all but thirty-three American cities, and which spends 18 percent of all the money spent by U.S. municipalities, to the smallest incorporated places with populations of less than fifty people and which provide virtually all their services through the use of volunteers.

Over 60 percent of the U.S. population resides in cities.

When viewed as part of the American governmental financial system, cities are also significant.

Cities are responsible for 9 percent of all governmental spending, levy 6 percent of all taxes, employ 15 percent of all civilian government employees, and are responsible for six percent of all governmental debt outstanding.

The purpose of this report is to indicate where cities have been in the recent past and what they face in fiscal 1989.

How the Survey was Done and Which Cities Responded

In May, 1988, a city fiscal conditions questionnaire was sent to 756 American cities by NLC's Office of Policy Analysis and Development. The questionnaire asked for a three year history of a number of items:

- Summary of General Fund transactions
- Municipal personnel
- Budget adjustments made in the last year

Also included were a series of questions on federal tax reform and property taxes which will be incorporated in future reports.

TABLE I-2
1988 NLC FINANCIAL SURVEY CITIES BY STATE AND POPULATION SIZE

States	10,000 to 49,999	50,000 to 99,999	100,000 to 299,999	over 300,000	Total
ALABAMA	3	2	1	0	6
ALASKA	0	0	1	0	1
ARIZONA	0	0	4	2	6
ARKANSAS	1	2	1	0	4
CALIFORNIA	13	21	10	5	49
COLORADO	2	4	2	1	9
CONNECTICUT	4	5	1	0	10
DISTRICT OF COLUMBIA	0	0	0	1	1
DELAWARE	0	0	0	0	0
FLORIDA	5	5	4	1	15
GEORGIA	1	1	2	1	5
HAWAII	0	0	0	1	1
IDAHO	0	0	0	0	0
ILLINOIS	8	6	2	1	17
INDIANA	1	2	1	1	5
IOWA	2	3	2	0	7
KANSAS	3	1	2	0	6
KENTUCKY	4	1	1	0	6
LOUISIANA	2	4	1	1	8
MAINE	1	0	0	0	1
MARYLAND	2	0	0	1	3
MASSACHUSETTS	4	0	0	1	5
MICHIGAN	6	10	2	1	19
MINNESOTA	5	1	0	1	7
MISSISSIPPI	3	2	2	1	8
MISSOURI	0	0	0	0	0
MONTANA	1	0	0	0	1
NEBRASKA	0	0	0	1	1
NEVADA	0	0	2	0	2
NEW HAMPSHIRE	1	0	0	0	1
NEW JERSEY	5	3	0	1	9
NEW MEXICO	2	1	0	1	4
NEW YORK	6	4	0	2	12
NORTH CAROLINA	1	3	4	0	8
NORTH DAKOTA	1	1	0	0	2
OHIO	3	3	2	4	12
OKLAHOMA	0	3	0	1	4
OREGON	5	0	1	1	7
PENNSYLVANIA	6	7	1	0	14
RHODE ISLAND	0	1	0	0	1
SOUTH CAROLINA	1	1	0	0	2
SOUTH DAKOTA	2	0	0	0	2
TENNESSEE	4	1	0	2	7
TEXAS	12	10	9	4	35
UTAH	1	3	0	0	4
VERMONT	0	0	0	0	0
VIRGINIA	0	1	2	1	4
WASHINGTON	2	0	1	1	4
WEST VIRGINIA	2	1	0	0	3
WISCONSIN	4	3	1	1	9
WYOMING	0	0	0	0	0
TOTALS	129	116	62	40	347

TABLE I-1
CITIES SURVEYED BY CITY SIZE

City Population	Total Number of Cities in This Class	Number of Surveys Sent	Number Returned	Percent Response
300,000 and over	51	51	40	78
100,000 to 299,999	127	127	62	49
50,000 to 99,999	250	250	116	46
10,000 to 49,999	1,787	328	129	39
Total	2,215	756	347	46

The survey was sent to all cities over 50,000 population and to a random sample of all cities between 10,000 and 50,000 in population.

Almost 350 cities returned the survey document in time to be included in this report. Table I-2 reports the distribution of the responding cities by population size and state. A complete list of the responding cities is included in the Appendix.

The population size of the responding cities ranged from communities just over 10,000 population to New York City with a population of 7,262,750.

On a regional basis, the respondents were distributed as follows:

TABLE I-3
RESPONDING CITIES BY REGION AND POPULATION SIZE

	Total	Over 300,000	100,000 to 299,999	50,000 to 99,999	10,000 to 49,999
Northeast	53	4	2	20	27
Midwest	95	11	14	32	38
South	111	13	25	35	38
West	88	12	21	29	26
Total	347	40	62	116	129

The regional breakdowns used are as defined by U.S. Census Bureau.

The composition of these four regions and their component divisions is shown on Table I-4.

TABLE I-4
REGIONS AND DIVISIONS

Northeast Region

New England Division
- Maine
- New Hampshire
- Vermont
- Massachusetts
- Rhode Island
- Connecticut

Mid-Atlantic
- New York
- New Jersey
- Pennsylvania
- Puerto Rico

Midwest Region

East North Central
- Ohio
- Indiana
- Illinois
- Michigan
- Wisconsin

West North Central
- Minnesota
- Iowa
- Missouri
- North Dakota
- South Dakota
- Nebraska
- Kansas

South Region

South Atlantic
- Delaware
- Maryland
- District of Columbia
- Virginia
- West Virginia
- North Carolina
- South Carolina
- Georgia
- Florida

East South Central
- Kentucky
- Tennessee
- Alabama
- Mississippi

West South Central
- Arkansas
- Louisiana
- Oklahoma
- Texas

West Region

Mountain
- Montana
- Idaho
- Wyoming
- Colorado
- New Mexico
- Arizona
- Utah
- Nevada

Pacific
- Washington
- Oregon
- California
- Alaska
- Hawaii

II. THE GENERAL FUND BUDGET

The survey asked the respondents, who were city finance or budget officials, for a three year history of their city's general fund budget in order to provide an indication of municipal budget trends.

What Were the Cities Asked For?

The cities were asked for a three year history/projection of their general fund budget.

I. For the City's General Fund

The officials were asked to provide information for their city's general fund.

The general fund was selected as the focus of this report for the following important reasons:

1. "The general fund is normally the most important fund of a municipality. It accounts for all resources not otherwise devoted to specific activities and finances many of the basic municipal functions . . . ."(ICMA, *Management Policies in Local Government Finance*, p. 209.)

2. The general fund is frequently a central focus of local budget deliberations since it usually finances such central municipal functions as police, fire, public works,planning and central administrative departments. It is also the area where state imposed limitations on taxing and spending are often most binding. The general fund however does not include all the expenditures a city makes.

The proportion of a city's spending incorporated in the general fund can show substantial variation depending on: (1) the complexity of a city's accounting system and the dictates of federal or state laws; (2) borrowing requirements imposed by lenders which may require segregation of both loan proceeds and the funds collected to repay the loan; and (3) the functions which a city carries out. As mentioned before, in some very small communities one hundred percent of the budget may be in one general fund. In most communities, even those of modest size, a number of funds are required. Examples of operations that are frequently set up in funds separate from the general fund would include:

Enterprise Funds – for example, municipally operated sewer, water, and electric utilities which are established to be self-sustaining through customer service charges.

Debt Service Funds – which are set up to receive dedicated revenues used to make principal and interest payments on city debt.

Trust Funds – for example bequests which are to be spent only for particular purposes.

Special Revenue Funds – such as those set up to account for federal or state grants given to accomplish particular projects.

The general fund was chosen as a focus of this report because of the type of activities which it finances, those general operations of the city which do not have special or dedicated revenue sources. While the percentage of the city's operation incorporated in the general fund was not the criteria for selection the respondents were asked what percentage of their total city spending the general fund represents.

As the previous description indicates the results varied the average figure was 56 percent. The most frequently occurring answer was 50 percent and there was an equal number of cities in which the figure was above and below 50 percent.

II. Four Numbers

They were asked to provide four figures for each year.

Beginning Balance: Simply speaking, these are the resources with which the city's general fund begins the year. If the city's general fund were a personal checking account, this would be like the balance carried forward from the previous month.

Revenues (and transfers in): This is the grand total of all taxes, fees, charges, federal and state grants, and other monies deposited into the general fund. While revenues are generally recurring items, the "transfers into general fund" also lumped into this item probably are not be of a regular recurring nature. These transfers occur when a city brings funds from one of its other specialized funds into the general fund for a variety of reasons.

Expenditures (and transfers out): This is the total of all spending by the general fund of the city and may include both operating and capital spending. As on the revenue side, transfers out of the general fund to other funds of the government are also included here.

Ending Balance: These are the resources with which the city's general fund is left at the end of the year. The ending balance results from this simple equation: Beginning Balance + Revenue - Expenditures = Ending Balance. The ending balance of year one becomes the beginning balance of the ensuing year.

III. For Three Years

The cities were asked to provide the general fund summary figures previously described for each of three years:

A. the fiscal year which ended in 1986,

B. the fiscal year which ended in 1987, and

C. the fiscal year which will end in 1988.

Because the surveys were completed in May and June of 1988, consequently respondents had to use estimated or budget figures for 1988. It is to be expected that actual 1988 figures will differ somewhat from those reported here. The fiscal year used by cities within a state tend to be uniform and are often specified by state law. This year's survey did not ask about the dates of fiscal years but past surveys have found that about 45 percent of cities have fiscal years ending in June, 30 percent ending in December, 15 percent ending in September (like the federal government) with the rest ending in some other month.

Revenues

This section of the report looks at the rates of growth in general fund revenues experienced by the surveyed cities during two time periods (1) fiscal year 1986 to 1987 and (2) fiscal year 1987 to 1988.

One of the most striking things is the variety of city revenue change.

TABLE II-1
GENERAL FUND REVENUE CHANGE

	Percent of Cities	
	FY 86 to 87	FY 87 to 88
Revenue declined	21	25
Revenue constant	4	5
Revenue increasing	75	70
	100	100

One quarter of the cities expect to see their revenues decline during the 1988 fiscal year, up slightly from the 21 percent which experienced this one year ago. Seventy percent expect to see revenues increase, down from 75 percent in the previous year.

TABLE II-2
CITIES WITH DECLINING GENERAL REVENUE BY REGIONS

	Percent of Cities	
	FY 86 to 87	FY 87 to 88
All Regions	21	25
Northeast	18	18
Midwest	15	27
South	27	22
West	22	28

Twenty-eight percent of the cities in the West and 27 percent in the Midwest expect to see revenue declines. Almost twice as large a percentage of midwestern cities expect a revenue decline in 1988 as experienced one last year.

While the numbers are relatively consistent in the two time periods, in every size category there is some increase in the percentage of cities who expect to experience a general fund revenue decline during the 1988 fiscal year.

TABLE II-3
PERCENT OF CITIES BY SIZE CLASS WITH A GENERAL FUND REVENUE DECLINE

Population Size	FY 86 to 87	FY 87 to 88
All Cities	21	25
300,000 and over	10	12
100,000 to 299,999	17	21
50,000 to 99,999	29	34
10,000 to 49,999	19	21

What about those cities that expect a revenue increase? Just under 30 percent of the cities in both years expect to see a modest revenue increase of between 1 and 5 percent. Those that expect general fund revenue increases in excess of 5 percent come from the following regions and size classes.

TABLE II-4
CITY REVENUE INCREASES OVER FIVE PERCENT BY REGION

	Percent of Cities	
	FY 86 to 87	FY 87 to 88
All cities	47	43
Northeast	56	59
Midwest	48	33
South	40	55
West	50	36

Smaller percentages of the cities in the Midwest and West expect to experience revenue growth exceeding 5 percent during 1988 than experienced this in 1987. An increased percentage of the southern cities on the other hand expect to see this more rapid type of revenue increase.

TABLE II-5
CITY REVENUE INCREASES EXCEEDING FIVE PERCENT BY POPULATION SIZE

	Percent of Cities	
Population Class	FY 86 to 87	FY 87 to 88
All Cities	47	44
300,000 and over	36	42
100,000 to 299,999	55	47
50,000 to 99,999	39	38
10,000 to 49,999	54	49

As the above table shows, there is a considerable degree of consistency in this revenue performance from year to year and between size classifications.

Expenditures

City general fund spending patterns exhibit as much variety as the revenue growth patterns which were just described.

TABLE II-6
EXPENDITURE EXPECTATIONS

Expenditures Expected to:	Percent of Cities FY 86 to 87	FY 87 to 88
Decline	23	18
Be constant	3	2
Increase	74	80
	100	100

The percentages of cities falling into these three broad categories are quite consistent from year to year. A slightly lower percentage of cities expect their general fund expenditures to decline while slightly more expect to see an increase.

TABLE II-7
LOWER CITY SPENDING BY REGION

	Percent of Cities FY 86 to 87	FY 87 to 88
Total	23	18
Northeast	18	21
Midwest	21	15
South	28	18
West	21	20

The percentages are fairly consistent from year to year when evaluated on a regional basis.

TABLE II-8
LOWER SPENDING BY POPULATION SIZE OF CITY

Population Class	FY 86 to 87	FY 87 to 88
All Cities	23	18
300,000 and over	21	6
100 to 299,999	17	17
50 to 99,999	26	19
10,000 to 49,999	23	21

One in five of the cities expected General Fund Spending to decline during both time periods.

TABLE II-9
CITY SPENDING INCREASES OVER FIVE PERCENT BY REGION

Region	Percent of Cities FY 86 to 87	FY 87 to 88
All Cities	46	54
Northeast	58	64
Midwest	42	61
South	39	55
West	54	43

TABLE II-10
SPENDING INCREASES OVER FIVE PERCENT BY POPULATION SIZE

Spending Expected to Increase by More Than 5% Size Class	Percent of Cities FY 86 to 87	FY 87 to 88
All Cities	46	54
300,000 and over	41	54
100,000 to 299,999	52	53
50,000 to 99,999	41	60
10,000 to 49,999	50	49

When one looks at the cases where expenditure increases in 1988 are expected to exceed the higher figure of 15 percent, an interesting pattern does emerge. Generally as city size decreases, the percentage of cities expecting an expenditure increase exceeding 15 percent increases.

TABLE II-11
SPENDING INCREASES OVER 15 PERCENT BY POPULATION SIZE

City Size	Percent of Cities
300,000 and over	12
100,000 to 299,999	11
50,000 to 99,999	16
10,000 to 49,999	22

Looking at this high growth in expenditures on a regional basis another pattern emerges.

TABLE II-12
SPENDING INCREASES OVER 15 PERCENT BY REGION

Region	Percent of Cities
Northeast	12%
South	21%
Midwest	17%
West	12%

The South and Midwest have greater numbers of cities who expect very rapid expenditure increases followed by the West and Northeast.

How Do Cities See Their Revenues Matching Up With Expenditures?

Expenditures and revenues of municipalities are not independent of each other, but rather, interdependent. At times, tax and revenue policy will be consciously designed to underwrite expanded programs, and, at other times, natural revenue increases will permit program expansions, tax cuts, or attacks on backlogged capital spending needs. On the other hand, revenue decreases often force reductions in levels of service and spending levels. At other times, cities make conscious decisions to reduce revenues and provide a smaller package of service.

Most cities are required by state or municipal law to produce budgets that balance. This means total resources must exceed total spending. Resources include beginning balances and revenues not just revenue alone.

The first step in this analysis is to see just how current year revenues and expenditures match up without the consideration of beginning balances.

TABLE II-13
CITY GENERAL FUND EXPENDITURE/REVENUE RELATIONSHIP

	Percent of Cities		
Fiscal Year	1986	1987	1988
Expenditure exceeding revenue	40	33	50
Expenditure equaling revenue	8	14	26
Expenditure less than revenue	52	53	24
	100	100	100

During 1988, 50 percent of the cities expect expenditures to exceed revenues. If this pattern is borne out in actual results, it will force the drawing down of beginning balan-

ces. This would represent a 52 percent increase from 1987 results. There is a natural pessimistic bent to city government budgeting practices so actual results in 1988 probably won't be quite this extreme. In order to guarantee a positive balance, revenue estimates must be conservative while expenditure requirements must be pessimistic. Even when this predictable budgeting tendency is discounted it is clear that this is not an optimistic trend.

It is particularly revealing to look at those fiscal years where actual results are being reported. While there appears to have been some improvement from 1986 the figure is still worse than that which existed in 1984 or 1985.

TABLE II-14
PERCENTAGE OF CITIES REPORTING EXPENDITURES EXCEEDING REVENUES IN GENERAL FUND BUDGETS

Fiscal Year	1984	1985	1986	1987
Percent of Cities	24	30	40	33

The 1984 and 1985 figures were taken from previous NLC Fiscal Conditions Surveys. This pattern is particularly disturbing when viewed against other trends: the beginning of renewed inflationary pressures, the fact that the full "bite" of general revenue sharing losses started to take effect in 1988, and the number of states in tight fiscal situations which will have a spin-off effect on the cities within them.

Another factor, which makes this figure even more important, is the continuing large percentage of cities which report reductions in capital spending. Capital spending, particularly the smaller construction projects often reflected in general fund budgets, is often used as a budget relief valve. The full cost of a capital project will be budgeted, but with planning and design processes the project may not be ready for contract award until the end of the fiscal year. If the budget is tight, the project award may be deferred. This deferral results in immediate savings, which in turn helps in budget control.

With lower levels of capital spending reported by cities, this means that greater portions of municipal budgets will be operating spending, primarily salaries and attendant fringe benefits, for municipal employees. These expenses are much harder to control as they are spent regularly over the course of the fiscal year. For example, if a budget reduction is required at the middle of a year, personnel cost reductions have to be "doubled". For example, if personnel costs are $1,000,000 with fifty employees (average cost $20,000) and a required savings of $100,000 is identified at mid-year, then a layoff of 10 employees is required, not five as might first be guessed, since the required savings have to be realized in only one half year (1/2 x 20,000 x 10 = $100,000).

This simplified example does not even consider a variety of factors with which cities must deal, for example; minimum notice periods for layoff, varying salary levels, ter-

mination benefits, unemployment payments, and many other factors. Delayed budget spending decisions by the federal and state governments about levels of municipal assistance to be included in their budgets only make these problems more extreme.

Twenty-six percent of the cities expect revenues and expenditures to be in exact balance. This expected mathematical precision results from the fact that many communities are reporting budget expectations; actual results can be expected to show some variation. The fact remains that one quarter of the cities expect revenue and spending to be very close.

The General Fund Revenue-Expenditure Imbalance Index

What is the extent of the mismatch between current revenues and spending that is expected?

Because general fund budget sizes vary from city to city, it is necessary to reduce the revenue and expenditure figures to some common index. To do this for the most current year, 1988 expenditures are subtracted from 1988 revenues to yield the dollar amount of the imbalance. Because city budget sizes vary so much it is useful to translate this figure to a comparative base.

In order to produce this comparative index the basic imbalance figure is divided by 1987 expenditures.

Thus, a city with $1,000,000 of revenue and $1,100,000 in expenditures would have an imbalance index of -9 percent. A city with revenues equaling expenditures would have an index of zero. A city with revenues of $1,100,000 and expenditures of $1,000,000 would have a positive index of 10 percent.

As an example, this concept, when applied to the federal budget equivalent of a city general fund budget for fiscal year 1987, produced an imbalance index of -41 percent. For the current 1988 fiscal year, the President's budget proposal would produce an imbalance of -44 percent. This index number dramatically shows the imbalance in the financing of general federal activities. It should also be pointed out if the federal government utilized a capital budget some of the expenditures producing this high index of imbalance would go "off-budget" and probably produce a lower imbalance figure. (Source: NLC calculations based on "Federal Fund Receipts and Expenditures (Excludes trust funds)" Table C-2, *Special Analysis Budget of the United States Government Fiscal Year 1989* O.M.B.)

Since some budget variation is normally experienced, a review of the city figures after allowing for a five percent variation from absolute balance in the index in either direction may prove useful.

TABLE II-15
IMBALANCE INDEX 1986, 1987 AND 1988 PROJECTED

Imbalance Index *	Percent of Cities 1986	1987	1988
Worse than -5%	10	8	16
-5 to +5%	71	71	76
Better than +5%	19	21	8
	100	100	100

*Imbalance index = $\frac{\text{Revenue - Expenditure}}{\text{Expenditure}}$

This tabulation, as would be expected, shows significant clustering around the middle values. The same negative trends identified before are also shown here. Twice as large a percentage of cities expect an imbalance index exceeding 5 percent in 1988 as did in 1987. At the other extreme, only 8 percent of the cities expect a positive balance index exceeding 5 percent, a 62 percent decline from 1987. Again, the conservative estimating tendencies must be factored in. By looking at those years where data is final, the following patterns are shown.

TABLE II-16
PERCENT OF CITIES REPORTING REVENUE-EXPENDITURE IMBALANCES

	1984	1985	1986	1987
Worse than -5%	8	11	10	8
Better than +5%	33	27	19	21

These rows show a considerable consistency with a somewhat smaller percentage of cities observing positive revenue-expenditure relationships exceeding 5 percent in 1986 and 1987.

When viewed on a regional and city size basis, other trends emerge.

TABLE II-17
PERCENT OF CITIES IN WITH IMBALANCE INDEXES WORSE THAN -5%

Region	1986	1987	1988
All Cities	10	8	16
Northeast	10	8	12
Midwest	8	7	16
South	11	7	15
West	12	9	19

The most noticeable observation from this table is that increasing percentages in all regions expect 1988 imbalance indexes worse than -5 percent.

TABLE II-18
PERCENT OF CITIES IN EACH POPULATION CLASS WITH IMBALANCE INDEXES WORSE THAN -5%

Size Class	1986	1987	1988
All Cities	10	8	16
300,000 and over	5	0	6
100,000 to 299,999	7	3	19
50,000 to 99,999	10	7	21
10,000 to 49,999	14	13	12

Again there is a deterioration in cities of all sizes except the smallest from 1987 to 1988. Similarly, there appears to be a general pattern of deterioration as city size decreases, again except in the 10,000 to 50,000 population class. The relatively smaller budget sizes of these communities means that dollar variations in budgets which would be engulfed in the budgets of larger communities can produce noticeable percentage variations in these budgets. This fact may produce more conservative budgetary projections and contribute to the steadier pattern displayed above.

In order to examine the entire picture, the third, and so far missing component of the budget balancing act, needs examination; this factor is the beginning balance.

Cushioning the Expenditure-Revenue Imbalance

As discussed earlier, the beginning balance in basic terms is the the amount of funds with which the city starts the year.

To the extent that cities have beginning balances they can be utilized to cushion a current year mismatch between revenues and expenditures.

It is very important to emphasize that not all amounts included in the beginning balance are readily available to perform this cushioning function. One reason is that some portions of the balance may be legally restricted, reserved for a specific purpose and thus not available to cover general spending requirements. A second reason is that resources reflected in the balance are not all held in the form of cash, they may represent unpaid taxes or charges which are legally owed to the city but have not been paid.

At the beginning of the 1988 fiscal year 26 percent of the reporting cities had beginning balances equal to 5 percent or less of their 1988 expenditures. Seventy-five percent of the reporting cities had beginning balances exceeding this 5 percent threshold.

The majority of the reporting communities will not be increasing their balances during the course of fiscal 1988. As the previous revenue/expenditure discussion would indicate most of the communities will be drawing down their beginning balances during the course of the year. Fifty-seven percent of the communities will be reducing their balances and 15 percent will just be maintaining the dollar amount of their balance. Twenty-eight percent will be building up their balances in 1988.

Summing Up

During fiscal 1988 most of the cities in this survey will be drawing down their beginning balances. While for some cities this will be normal process of leveling out uneven revenues and expenditures from year to year, for others it is a forced choice which will reduce future financial adaptability in order to meet the service needs of today.

III. BUDGETARY ADJUSTMENTS

Cities operate in complex and changing environments and the budgets of cities must be adjusted by city leaders to respond and adapt quickly to these changes.

Among the factors which often influence city spending and operating decisions are the following:

- The tax and spending limits imposed by state laws or constitutions.
- Growth or decline in community population, also the speed of the overall change and the changing demographic composition of a community's population.
- Changes in the level and type of funding from state and federal sources.
- Expenditures which are mandated (required) by federal and state laws and regulations as well as spending requirements imposed by court decisions.
- Changes in the economic base of the community as industries and firms grow and decline in importance.
- Changes in community spending priorities often concurrent with elections and other changes in community leadership.

The survey asked the respondents to specify which of fifteen specified budget adjustment actions had been taken by their city in the last year.

The respondents were further requested to indicate which of five listed factors they judged to be influential in the decision to take the listed action.

The accompanying table summarizes the actions taken and the influential factors from among which the respondents could choose.

TABLE III-1
BUDGET ADJUSTMENTS REPORTED BY CITIES

Budget Adjustments Reported by Cities	Percent reporting action last year	Factors influencing reported actions (Percent of cities reporting specified action*) Loss of General Revenue Sharing	Federal tax reform	Loss of other federal funds	Change in state funding	Other factors
Increased fees and charges	67	38	2	7	12	78
Reduced growth rate of operating spending	55	57	3	23	23	60
Reduced capital spending	44	64	5	18	15	46
Increased property tax rates	41	55	4	14	22	69
Implemented new fees and charges	37	40	1	6	16	73
Contracted out services	35	18	3	5	7	81
Reduced number of city employees	25	52	1	22	20	62
Imposed/raised impact or development fees	24	28	5	9	21	37
Froze municipal hiring	22	46	5	19	19	73
Increased rates of other taxes (other than property, income, or sales)	16	60	2	17	19	57
Reduced city service levels (e.g., hours of operation)	14	44	5	26	26	85
New tax or taxes	10	37	0	6	11	66
Increased sales tax rates	8	59	0	19	19	63
Shifted service responsibilities to another government	5	38	0	13	38	50
Increased income tax rates	1	4	0	0	0	75

* Totals sum to more than 100 percent because many cities reported multiple factors for a single decision

Adjustment of Fees and Charges

The most frequently employed action by the responding cities was an increase in the level of fees and charges. Sixty-seven percent of the cities report this action has been taken in the last year.

According to statistics of the U.S. Census Bureau such fees and charges constitute about one-fifth of general city revenues (general revenues exclude the revenues of city operated electric, gas, transit, and water utilities).

The types of fees and charges which cities impose include charges for recreation programs, charges for various zoning and planning actions, inspection fees and permits for various commercial activities.

Cited most frequently as influential in this action were "other factors" which four-fifths of the respondents credited as influencing these actions. Two-fifths of the cities at-

tributed the increased level of fees and charges to the loss of the funds formerly received from the federal General Revenue Sharing program.

General Revenue Sharing, which was terminated in September 1986, formerly provided about two percent of general city revenues and more than one-fifth of all federal funds received by city governments.

On a regional basis 73 percent of the western cities reported raising fees. More than two-thirds of the northeastern (66 percent) and midwestern (68 percent) cities also report having taken this action during the last year. A somewhat lower percentage of the southern cities (60 percent) report having raised such fees and charges during the past year.

Eighty percent of the cities over 100,000 population report having raised their fees, while 65 percent of the cities between 50,000 and 100,000 report the same action.

Of the cities between 10,000 and 50,000 a lower 57 percent report having increased their fees and charges. This declining pattern by size of city may reflect a greater number of fees and charges employed by larger cities which in turn may be reflective of a larger range of activities and a high enough level of transactions to make it feasible to establish and maintain a fee collecting system. A more extensive "fee menu" also probably increases the odds that some of the fees will have their rates adjusted during the course of a year.

Upward adjustment of fees and charges also was more frequently employed by central cities (70 percent) and suburbs (67 percent) than by communities outside of metropolitan areas (50 percent).

Two other questions were asked about fees and charges: (1) whether new fees or charges had been implemented and (2) whether the special category of fees known as "impact or development fees" had been imposed or raised.

Starting to Charge New Fees

While two-thirds of the cities reported increasing the level of preexisting fees and charges during the past year a lower percentage, 37 percent, report that new fees or charges were implemented. Once again, "other factors" were the most frequently cited influence on the decision to implement new fees. Forty percent of the cities reported that the loss of General Revenue Sharing was influential in their decision. Sixteen percent of the cities cited a changed level of funding from their state government as influencing their decision to put new fees and charges in place.

Regionally, the western cities were more likely to have implemented new fees than cities in the other regions. Forty-three percent of the western cities report putting new fees in place followed in order by the South (37 percent), the Northeast (34 percent) and the Midwest (33 percent).

On a population size basis half of the responding cities over 100,000 population report that new fees or charges were implemented during the last year while 32 percent of the cities below 100,000 population report having taken the same action.

Thirty-nine percent of the central cities, and 36 percent of the suburban communities, report starting new fees in the last year.

Impact Fees

The third area of fees explored in the survey is that special classification known as development or impact fees. This family of fees gain their name because they are designed and structured to impose a portion of the incremental cost of new public facilities or services required by new development on this same new development.

For the most part such fees are imposed to defray the costs of infrastructure such as roads, sewer, water, drainage, parks, schools and fire stations. While fees and special assessments have long been imposed to help recover direct costs of on-site public improvements such as sewer and water laterals directly serving a property and the street and sidewalk directly fronting on a property, impact fees typically have a more ambitious objective.

While the design and objective of impact fees will differ from city to city they typically attempt to recover a significant share of the incremental central facility costs which will cumulate until major investments will be required. For example, while the construction of one new dwelling or a single commercial structure will not require the expansion of a sewage treatment plant or widening of a major road the incremental demand of numbers of such units will eventually require such major public investments. Impact fees are thus designed to charge each development project a prorated portion of the projected or already expended costs for such major central public facilities. In the simplest terms an impact fee can be termed a "buy-in fee". They are an attempt to incorporate into private development costs all the public investments which the private development will necessitate over time.

Twenty-four percent of the responding cities indicate that they have either imposed or raised impact fees during the last year. When asked to choose factors felt to be influential in this decision 37 percent cite the ubiquitous "other factors". Twenty-eight percent of the cities cite the loss of General Revenue Sharing as influential in their actions during the last year related to impact fees.

Since impact fees are predominantly charged to finance capital spending, it is interesting to note that 44 percent of the cities indicate that they have reduced capital spending and 64 percent of these cities indicate that the loss of General Revenue Sharing was influential in this decision. Since the loss of General Revenue Sharing appears to have been significant in decisions to reduce capital spending it is also not unreasonable

to assume that many of the communities imposing or adjusting impact fees are looking to these fees to at least partially fill the capital spending gap left by the loss of General Revenue Sharing.

Changed levels of state funding are cited by 21 percent of the cities in their decision to take affirmative actions on impact fees during the last year. This may have a relationship to the significant role of state-shared revenues, particularly gas taxes – which are frequently dedicated solely to the financing of roads and other transportation improvements – in city capital spending decisions.

Cities in the western region report adjusting or implementing impact fees almost twice as frequently as communities in the other three regions.

While 39 percent of the western cities report taking this action in the last year only 25 percent of the northeastern cities, 20 percent of the southern cities and 13 percent of the midwestern cities report changes to their impact fees.

On a population size basis 37 percent of the cities from 100,000 to 300,000 report impact fee actions. In contrast, 20 percent of the cities in each of the other three size groupings report impact fee actions. This may be strongly related to the fact that 16 percent of the reporting cities in this size category are from California, a leader in the employment of such fees, as a result of strong population growth, limits on traditional taxing powers imposed by Proposition 13 and growth control efforts in some areas of the state.

Suburban communities appear somewhat more likely to have adjusted impact fees during the last year. Twenty-eight percent of the suburban cities report such actions in the last year, while 21 percent of the central cities and 18 percent of the non-metro communities report the same action.

Reductions in Operating and Capital Spending

Moving from the areas of fees and charges the second and third most often cited budgetary adjustments, after an upward adjustment of existing fees and charges, are actions on the expenditure side of the budget. Restraint in the growth of operating spending and reduction in capital spending are cited by roughly half of the cities. In contrast to adjustment of fees and charges, which can be very specific and targeted, these strategies of spending restraint or reduction tend to describe more extensive actions. This statement is not meant to minimize the fact that cities do set priorities in their spending decisions. This survey, however, did not gather information about the functional areas of spending which have been restrained or reduced.

Before discussing these major areas of budget adjustment it is probably useful to examine the relative share of city spending accounted for by operations and capital purposes. According to the most recent U.S. Census Bureau data, which are for fiscal year 1985-86, operating spending represented 70 percent of total city expenditures and capi-

tal expenditures 16 percent. The other 14 percent was composed of interest payments on debt, payments to other governments, and insurance and public welfare payments.

Reductions in Growth of Operating Spending

Since operating spending is such a large percentage of total city spending it is a logical area for budgetary action. This generalization is borne out by the respondents' answers: 55 percent of the cities report that they have reduced the growth rate in operating spending during the last year. In attributing factors influencing this restraint of operating almost identical proportions cite the loss of General Revenue Sharing (57 percent) and "other factors" (60 percent).

It may seem strange that city finance and budget officials are still citing the loss of General Revenue Sharing almost two years after the last funds were distributed under this program in September of 1986. It is important to remember that most city fiscal years end in the months of June and September, thus the 1987-88 fiscal year to which this question was aimed is the first fiscal year in which most cities received no General Revenue Sharing funds.

Almost one quarter of the cities cite "the loss of other federal funds" (23 percent) or "changed level of funding from the state" (23 percent) as being influential factors in this restraint of operating spending.

Regionally there is considerable consistency in the percentage of cities restraining operating spending. In the West, 63 percent of the cities are restraining operating spending growth, in the South, 57 percent, and in the Midwest, 54 percent. Only 34 percent of the northeastern cities report this spending restraint, but this result must be viewed very carefully because of a relatively small number of respondents.

By city type it appears that a slightly lower, though still high, percentage of suburban cities are exercising this type of operating spending restraint. While 47 percent, almost half, of the suburban cities report slowing the growth rate of operating spending 59 percent of the central cities and 58 percent of the non-metro cities report taking this action.

Over 60 percent of the cities over 100,000 population report this type of spending restraint and 56 percent of the cities between 50,000 and 100,000 also report this. Among the cities between 10,000 and 50,000 a lower percentage of cities (43 percent) report restraint in the growth of operating spending.

The overall finding this year is the same as that discovered in last year's fiscal survey which also discovered that 55 percent of the cities were slowing down the growth of operating spending.

Reduced Capital Spending

Reduction of capital spending is a strategy which has been employed in the past year by 44 percent of the responding cities. Almost two thirds (64 percent) of those taking this action characterize the loss of General Revenue Sharing as an influential factor. Loss of other federal funds is cited by 18 percent. Fifteen percent credit a changed level of state funding as having been an influential factor. "Other factors" are cited by 46 percent of the responding cities.

Regionally, 57 percent of the western cities report a reduction of capital spending, 51 percent of the southern cities, 36 percent of the midwestern cities and 21 percent of the northeastern cities.

A higher percentage of central cities report this reduction in capital spending, 49 percent, than either the non-metro communities at 40 percent or the suburban communities at 38 percent.

On a population size basis 40 percent of the cities over 300,000 report capital spending reductions, 55 percent of the cities between 100,000 and 300,000, 47 percent of the cities between 50,000 and 100,000 and 36 percent of the cities between 10,000 and 50,000.

To provide further analysis it would be useful to know the levels of capital spending which were in effect before the reductions were made. This would enable one to judge if the cuts were made from relatively high or low levels. Unfortunately information of this sort was not gathered in the survey.

In last year's survey, 52 percent of the cities reported a reduction in capital spending, but it is impossible to say if the drop to 44 percent can be attributed to already cutting this category of expenditure to a minimal level or whether the differences in the respondents cause this or whether alternative means of financing have been found.

Tax Rates

Five of the budgetary adjustments which the cities were questioned about involved taxes. Before reviewing the results in these areas it is once again useful to determine the relative importance of each of the major types of taxes imposed by cities. The most common tax employed by cities in the U.S. is the property tax. For the most recent year for which information is available, the Census Bureau reports that 49 percent of all city tax collections were derived from the property tax. For most American cities the percentage of reliance is much higher since they are precluded from using the income tax and to a lesser extent the sales tax.

Next in importance is the general sales tax which is quite widely used and contributes 18 percent of total city tax revenue.

The income tax accounts for 14 percent of total city tax revenue.

The use of the income tax is quite geographically concentrated in major communities like New York City and Washington, D.C., and in practically all municipalities in the heavily urbanized states of Ohio and Pennsylvania. The reliance in these areas would be higher while in most areas this type of municipal tax is not a factor.

Selective sales taxes, which would include such taxes as hotel-motel, restaurant meal, gasoline and admission taxes, contributed 11 percent of city tax revenue.

Other miscellaneous taxes contributed 8 percent.

What adjustments did cities in this survey make to these taxes?

Forty-one percent of the cities said they had increased their property tax rates during the last year. Only 8 percent of the cities said they had increased sales tax rates and only 1 percent or four cities said that they had increased income tax rates. Sixteen percent of the cities said that they had increased the rate of "other taxes", (other than property, sales or income) and 10 percent of the cities indicated that a new tax or taxes had been implemented during the last year.

Despite the political difficulty of increasing property tax rates two-fifths of the cities indicated this had been done in the past year. The percentage is even higher when those increasing property tax rates are computed as a percentage of those that indicated that their city was, "legally able to change the property tax rate levied for non debt purposes." When this condition is imposed half of the cities indicate that the city property tax rate has been raised in the past year.

Regionally, 77 percent of the northeastern cities indicate that their property tax rate has been increased in the last year. Roughly the same proportion of southern and midwestern cities which responded to the survey indicated that property taxes had been raised, 42 percent in the South and 41 percent in the Midwest. In the West, however, only 15 percent of the cities indicate that property tax rates have been increased.

A couple of explanations can be offered for these regional variations. The most important is the impact of the state constitutional provision in California enacted by the voters as Proposition 13.

This law precludes local jurisdictions from increasing property tax rates for non-debt purposes and originally precluded any new debt obligations supported by property tax revenue. Thus, California cities are prohibited from increasing property tax rates for operating purposes. Since 49 out of the 56 western cities responding to the survey were from California, this has a large impact on the results in the western region.

Confirming this interpretation is the fact that when only those cities in the West that indicate they can modify the property tax rate for non-debt purposes are considered, 33 percent of this western subset indicate that property tax rates have been increased.

While this percentage still does not approach the comparable national figure of 52 percent it does rise considerably.

Controlling for this legal capacity to adjust property tax rates does not produce a significant change in the percentages in the other regions.

No comparably strong explanation can be offered for the northeastern region. It may however be influenced by the fact that many northeastern cities and towns have responsibilities for financing educational and public welfare costs which are not typically assigned to municipal governments in most of the United States. The recent trend to emphasize educational programs, including enhanced school funding, may be an influence in this region, as city governments raise the monies generated in other parts of the country by independent school district governments.

In making judgments about the factors which were influential in making the decision to hike the property tax rate, 55 percent cite the loss of General Revenue Sharing, 22 percent cite changed levels of funding from the state, 14 percent cite the loss of other federal funds, and 69 percent attribute at least a portion of the blame to "other factors".

Dramatically lower percentages of the cities responding made any upward adjustment in their sales or income tax rates. Only 8 percent of the responding cities indicated that an upward adjustment had been made in the sales tax rate and only 1 percent indicated that income tax rates had been increased.

Two factors can explain a major portion of these two findings. First, in many states cities are precluded from utilizing these two tax sources, particularly the income tax. Second, in those states where the use of such taxes is authorized the tax may only be imposed at one "take or leave it rate". That is, a city may opt to levy a sales or income tax but if it does it may only be levied at one standard rate, no higher or lower. This rate cannot be changed unless the state law which governs the process is changed.

Only twenty-seven cities responding to the survey indicated that sales tax rates had been increased and only four indicated that income tax rates were increased.

Perhaps because other taxes are less often controlled by state statute and because other taxes tend to be more selective 16 percent of the responding cities indicate that the rates of some other taxes have been increased during the last year.

Thirty percent of the western cities indicate that they have increased the rate of such other taxes in the past year. Cities in the other regions trail in this practice as only 15 percent of the midwestern cities and 8 percent in each of the northeastern and southern regions have increased such taxes.

The larger the city the more likely the upward adjustment in the rates of these taxes is. Thirty-five percent of the cities over 300,000 have adjusted these taxes, 21 percent of the cities between 100,000 and 300,000, 15 percent of the cities between 50,000 and 100,000, and 7 percent of the cities between 10,000 and 50,000.

Central cities and suburban cities were more likely to raise the rates of these taxes, 19 percent and 14 percent respectively. Only one city located outside a metropolitan area indicated that rates of such other taxes had been increased in the past year.

Ten percent of the responding cities indicated that they had imposed some new tax during the past year. This action seems to have been most prevalent among the responding cities in the Midwest where 19 percent indicate this had been done.

The Municipal Work Force

Salary, wage and fringe benefit costs for municipal employees constitute a major proportion of municipal budgets so it is not surprising that actions to control these costs were also budget adjustment strategies pursued in a number of cities.

Twenty-five percent of the responding cities indicate that they have reduced the number of municipal employees during the past year. Twenty-two percent indicate that they have implemented some type of hiring freeze during the past year. Roughly one half of the cities taking either of these two actions indicate that the loss of General Revenue Sharing funds was an influential factor in this decision.

Fifty-two percent of those reducing municipal personnel indicate that the loss of revenue sharing was influential, 62 percent credit "other factors", 22 percent the loss of other federal funds and 20 percent changed levels of funding from their state government.

Reductions in city personnel appear to have been most common in the midwestern and southern communities. Thirty-two percent of the midwestern cities indicate that the number of personnel have been reduced, 27 percent of the southern cities also indicate that this has been done. The same action has been taken in lower percentages of northeastern (19 percent) and western (18 percent) cities.

The responses suggest that work force reductions have some relation to size of city with higher percentages of the larger communities indicating such adjustments. Reductions have been made by 38 percent of the cities over 300,000, by 34 percent of the cities between 100,000 and 300,000, by 26 percent of the cities between 50,000 and 100,000 and by 16 percent of the cities between 10,000 and 50,0000. Central cities and those outside metropolitan areas also tended to make this adjustment more frequently than suburban cities. While 35 percent of the central cities reported reductions and 23 percent of the non-metro cities reported the same only 14 percent of the suburban communities indicated that they had done this.

Contracting, Service Levels, and Shifting Service Responsibilities

Thirty-five percent of the responding cities indicate that some city service has been contracted out during the past year. While 18 percent of the cities taking this action indicate that the loss of revenue sharing influenced this action, the largest percentage (81%) indicate some "other factor".

Provision of city services by contracting rather than by direct provision using city personnel is a much discussed and studied current trend. Among the cities responding to this survey the western and southern communities were more likely to have contracted for services in the past year than cities in the other two regions. While 48 percent of the western and 34 percent of the midwestern cities indicate contracting only 28 percent of the midwestern and 26 percent of the northeastern cities indicate that they have done this.

Related to contracting is the complete or partial shifting of selected service responsibilities to another government. This is similar to contracting in that another party than the city produces the service but is different because under a service shift the city relinquishing the service also relinquishes financial responsibility for it. An example would be for a city to relinquish public health responsibilities to the county government. Such a shift may be accompanied by dedicated tax or user fee revenues. Because the use of this tactic was so infrequently reported no generalizations on a population size, city status, or regional basis appear appropriate.

The last budget adjustment action to be discussed is a reduction in city service levels. This may be the result of explicit decisions to save costs, for example shortening library hours, reducing the frequency of street sweeping or trash pickup. On the other hand it may simply be the recognition that staff reductions and other cuts have reduced the city's capacity to respond at a rate faster than increased productivity can cover for.

Fourteen percent of the cities report that service reductions have been made in the last year. The data do not allow a judgement about which of the two types of service reductions listed above these have been. It is probably safe however, to say that both have occurred and are reflected in these responses.

Forty-four percent of those reporting service reductions say that the loss of General Revenue Sharing was a factor. Twenty-six percent attribute these service reductions to the loss of other federal funds and 26 percent to changes in funding levels from the state government. Most of the cities (85 percent) attribute at least part of the cause to "other factors".

Summing Up

In conclusion, despite state-imposed restrictions and limits city governments have been very active in making budget adjusting actions on both the expenditure and revenue sides of the budget.

IV. CITY PERSONNEL

One of the largest cost elements in the provision of city services is the employment of personnel. While there have been moves by some city governments to contract out or "privatize" services, the levels of city employment and changes in municipal employment still serve as indicators of a city government's ability to provide services.

The surveyed cities were asked to provide a three-year history of municipal employment. Before reviewing the survey responses, it is useful to review the recent history of municipal employment as documented by the U.S. Census.

TABLE IV-1
TOTAL CITY EMPLOYMENT (in thousands)

Year	Number	Year	Number
1975	2,506	1981	2,469
1976	2,443	1982	2,379
1977	2,469	1983	2,423
1978	2,511	1984	2,434
1979	2,553	1985	2,467
1980	2,561	1986	2,494

As the preceding table shows, there was a fairly steady rise in the total number of individuals employed by municipal governments from 1976 until 1980, when a two-year decline began. According to these statistics, total city employment (both full and part time) in 1986 was still below the level which existed in 1975.

Changes in employment over this period have varied by city size. For example, while overall city employment, from 1980 through 1986, was down 2.6 percent, the cities over 300,000 population actually saw a 2.2 percent increase. Those cities between 50,000 and

300,000 population saw a 10.9 percent decline, while cities under 50,000 experienced a 1.8 percent decrease.

There is also significant variation among cities within the same population class; for example, while San Antonio showed a 24 percent increase in city work force over this period, Detroit's employment decreased 6 percent. There are a number of factors which can contribute to variations like these, including differing patterns of population growth and annexation practices, as well as differing mixes of full and part-time employees.

The ratio of employees to population also varies from city to city. For example, while San Antonio's municipal employee growth rate far outdistanced Detroit's decline, Detroit's ratio of city employees per 1,000 residents still stands 38 percent higher in 1986 than San Antonio's (18.7 full time equivalent employees per thousand in Detroit, compared to 13.6 full time equivalent employees per thousand population in San Antonio).

The mix of municipal employees also differs by city size class. Overall, while just over 1.3 percent of the United States' 19,000 municipalities operate school systems, education employment is almost 18 percent of total municipal employment, outdistancing police employment which stands at 16 percent.

A similar pattern, a small number of larger jurisdiction providing the service and accounting for the bulk of the employment in the function,also exists in the provision of hospitals and public welfare services. It is, perhaps,more instructive therefore to look at the mix of municipal employment by removing education, hospital and public welfare functions so that the figures are more comparable across different population size classifications. The figures which follow are all reported after this adjustment.

When these adjustments are made the largest categories of municipal employment are in police and utility functions. Twenty-three percent of all municipal employees are police employees, also with 23 percent is the combined category of sanitation, sewerage,and municipal utility workers. General administration (including finance) and fire protection represent 11 percent each.

On a population size basis, the largest cities (those over 300,000 population) have 100,000 more employees (non-education, hospital and public welfare) as all cities under 50,000.

TABLE IV-2
TOTAL MUNICIPAL EMPLOYMENT BY CITY SIZE

City Population	October 1986 Total Employees	Percent of Total
300,000 and over	691,979	41
50,000 to 299,999	404,125	24
under 50,000	590,679	35
Total	1,686,783	100

When the mix of municipal employment is evaluated on a population size basis, the following pattern emerges:

TABLE IV-3
PERCENTAGE COMPOSITION OF MUNICIPAL WORK FORCES BY CITY POPULATION

	In Cities over 300,000	In Cities from 50,000 to 299,999	In Cities Under 50,000
Fire	10	15	10
Administration	9	10	13
All Other	27	26	17
Police	22	22	26
Transportation	7	8	11
Utilities	25	19	23
	100	100	100

Administration becomes a progressively, larger proportion of the city work force as the population declines. This may reflect the more centralized support functions in smaller cities, while in larger communities, administrative functions are carried out at a department level with administrative positions being reported in the functional categories. The "all other" category decreases in size as the city size decreases, and this fits the generally expected pattern of greater variety of services offered in the larger cities. The other areas exhibit a fairly consistent share of employment, regardless of city size, when divided into these major categories.

What Did The Survey Find?

This survey, while it cannot claim the comprehensiveness of the Census data, can offer some clues to the changes in municipal employment since October 1986, the latest Census data that is available, and which formed the basis of the preceding discussion.

Cities were asked to provide a three-year history of municipal employment. The three years specified were the city's fiscal year ending in 1986, fiscal year ending in 1987, and the fiscal year which has or will end in 1988.

TABLE IV-4
MUNICIPAL PERSONNEL CHANGE PERCENTAGE OF CITIES REPORTING CHANGES

	1986 to 1987	1987 to 1988
Decrease	24	24
Held Constant	21	19
Increase	55	57
	100	100

The first finding, which emerges in both time periods, is that one-fourth of the cities are reducing the number of personnel. Roughly one-half of the cities are just holding constant or reducing levels of employment. At the same time, slightly more than one half of the cities are making some additions to the municipal work force. There is a great deal of consistency between the two time periods. This consistency remains even if one allows for a 5 percent variation in employment levels.

TABLE IV-5
MUNICIPAL EMPLOYMENT PERCENT OF CITIES REPORTING CHANGES

Change in City Employment	1986 to 1987	1987 to 1988
Decline more than 5%	5	7
Between -5% and +5%	82	81
Increase more than 5%	13	12
	100	100

When regional and size classification are added to the analysis the following distributions are revealed.

TABLE IV-6
PERCENT OF CITIES REPORTING DECLINES IN MUNICIPAL EMPLOYMENT

Region	1986 to 1987	1987 to 1988
Total	24	24
Northeast	27	16
Midwest	30	28
South	25	24
West	13	24

Just as the total figures for the two years are consistent, so the regional figures are reasonably consistent. In comparing the two time periods cities in the Northeast appear to have been less prone to reduce employees in the 1987 to 1988 time period, than in the year before, and cities in the West more likely. On a population size basis, once again, there is a high degree of consistency between the two time periods.

TABLE IV-7
PERCENT OF CITIES REDUCING EMPLOYMENT WITHIN EACH POPULATION CLASS

Population Size	1986 to 1987	1987 to 1988
Total	24	24
over 300,000	21	21
100,000 to 300,000	16	24
50,000 to 99,999	31	27
10,000 to 49,999	22	22

When cities which are increasing employment are examined on a regional basis, one again sees relative consistency between the two periods. The northeastern cities were more likely to have added employees last year than in prior period and the western cities less likely.

TABLE IV-8
PERCENTAGE OF CITIES BY REGION REPORTING INCREASED CITY EMPLOYMENT

Region	1986 to 1987	1987 to 1988
Total	55	57
Northeast	41	59
Midwest	45	49
South	56	58
West	72	62

When examined on a population size basis,once again, there is a consistency between the two time periods.

TABLE IV-9
PERCENTAGE OF CITIES IN EACH POPULATION SIZE CLASS REPORTING INCREASED CITY EMPLOYMENT

Population Size	1986 to 1987	1987 to 1988
Total	55	56
over 300,000	65	67
100,000 to 300,000	66	54
50,000 to 99,999	54	58
10,000 to 49,999	47	54

The preceding tables illustrate that the conservative practices in municipal hiring continue. The impact of reduced federal funding, as well as the cost pressures added by personnel mandates imposed on cities by the federal and state governments, will continue to exert pressure to restrain future growth in the municipal work force.

APPENDIX

CITIES RESPONDING TO 1988 FISCAL CONDITIONS SURVEY

ALABAMA
Dothan
Enterprise
Montgomery
Mountain Brook
Selma
Tuscaloosa

ALASKA
Anchorage

ARIZONA
Glendale
Mesa
Phoenix
Scottsdale
Tempe
Tucson

ARKANSAS
Fort Smith
Little Rock
Pine Bluff
West Memphis

CALIFORNIA
Anaheim
Arcata
Cathedral City
Cerritos
Commerce
Concord
Corona
Cudahy
Cupertino
Daly City
Danville
El Centro
El Monte
Escondido
Garden Grove
Glendale
Inglewood
Irvine
La Mesa
Lakewood
Long Beach
Los Angeles
Millbrae
Montebello
National City
Newport Beach
Redwood City
Richmond
Riverside
Sacramento
Salinas
San Diego
San Dimas
San Fernando
San Francisco
San Luis Obispo
San Pablo
Santa Ana
Santa Barbara
Santa Clara
Santa Monica
Selma
Simi Valley
Sunnyvale
Torrance
Vallejo
Visalia
West Covina
Whittier

COLORADO
Arvada
Colorado Springs
Denver
Fort Collins
Grand Junction
Greeley
Lakewood
Sterling
Westminster

CONNECTICUT
East Hartford
Fairfield
Guilford
Hamden
Ledyard
New Britain
Newington
Stamford
Vernon
West Hartford

D.C.
Washington

FLORIDA
Clearwater
Daytona Beach
Fort Lauderdale
Jacksonville
Largo
Leesburg
Lighthouse Point

North Miami
Orlando
Palm Bay
Pembroke Pines
Plantation
Rockledge
Tampa
Temple Terrace

GEORGIA
Albany
Atlanta
East Point
Macon
Savannah

HAWAII
Honolulu

ILLINOIS
Arlington Hts
Aurora
Bloomingdale
Chicago
Decatur
Evanston
Hazel Crest
Highland Park
La Salle
Mount Prospect
Mundelein
Normal
Northbrook
Oak Lawn
Peoria
Springfield
Urbana

INDIANA
Evansville
Indianapolis
Merrillville
Munice
Terre Haute

IOWA
Cedar Rapids

Council Bluffs
Des Moines
Iowa City
Sioux City
Urbandale
West Des Moines

KANSAS
Atchison
Kansas City
Liberal
Manhattan
Overland Park
Topeka

KENTUCKY
Frankfort
Jeffersontown
Louisville
Newport
Owensboro
Winchester

LOUISIANA
Baton Rouge
Bossier
Lafayette
Lake Charles
Monroe
Natchitoches
Ruston
Shreveport

MAINE
Brunswick

MARYLAND
Baltimore
College Park
Hyattsville

MASSACHUSETTS
Boston
Gardner
Methuen
Southbridge
Weston

MICHIGAN
Ann Arbor
Bay City
Dearborn
Detroit
Farmington Hills
Ferndale
Kalamazoo
Melvindale
Midland
Monroe
Roseville
Royal Oak
Saginaw
St. Clair Shores
Sterling Heights
Taylor
Troy
Wayne

WYOMING

MINNESOTA
Brainerd
Columbia Heights
Mankato
Minneapolis
Rochester
Saint Cloud
White Bear Lake

MISSOURI
Belton
Columbia
Independence
Joplin
Maryland Heights
Saint Joseph
Saint Louis
Springfield

MONTANA
Helena

NEBRASKA
Omaha

NEVADA
Las Vegas
Reno

NEW HAMPSHIRE
Claremont

NEW JERSEY
Bayonne
Bridgewater
Edison
Haddonfield
Newark
Parsippany
Saddle Brook
Vineland
Woodbury

NEW MEXICO
Albuquerque
Farmington
Roswell
Santa Fe

NEW YORK
Buffalo
Gates
Glens Falls
Lakawanna
Mount Vernon
New Rochelle
New York
Rome
Rye
Saratoga Springs
Schenectady
Troy

NORTH CAROLINA
Asheville
Durham
Fayetteville
Greensboro
High Point
Laurinburg
Raleigh
Winston-Salem

NORTH DAKOTA
Fargo
Jamestown

OHIO
Akron
Centerville
Cincinnati
Cleveland
Cleveland Hts.
Columbus
Dayton
Kent
Kettering
Mount Vernon
Parma
Toledo

OKLAHOMA
Lawton
Midwest City
Norman
Tulsa

OREGON
Beaverton
Eugene

Grants Pass
Hillsboro
Lake Oswego
Portland
Roseburg

PENNSYLVANIA
Aliquippa
Altoona
Aston
Bethlehem
Erie
Falls
Havertown
Kingston
Lower Merion
Lower Paxton
Penn Hills
Reading
Ridley
Upper Darby

RHODE ISLAND
Pawtucket

SOUTH CAROLINA
Charleston
Laurens

SOUTH DAKOTA
Brookings
Yankton

TENNESSEE
Clarksville
Dyersburg
East Ridge
Germantown
Memphis
Millington
Nashville

TEXAS
Allen
Amarillo
Arlington
Austin
Beaumont
Brownwood
Bryan
College Station
Copperas Cove
Corsicana
Dallas
De Soto
Deer Park
Farmers Branch
Galveston
Garland
Grand Prairie
Grapevine
Henderson
Houston
Huntsville
Irving
Killeen
Longview
Lubbock
McAllen
Mesquite
Midland
Plano
Port Arthur
Richardson
San Antonio
Uvalde
Waco
Wichita Falls

UTAH
Cedar City
Ogden
Orem
Sandy

VIRGINIA
Chesapeake
Danville
Roanoke
Virginia Beach

WASHINGTON
Bellingham
Kennewick
Seattle
Spokane

WEST VIRGINIA
Charleston
Moundsville
Parkersburg

WISCONSIN
Fitchburg
Green Bay
Madison
Middleton
Milwaukee
Oshkosh
Wauwatosa
West Allis
Wisconsin Rapids

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